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Near East and  
South Asia Review

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South Asia Review **b3**

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Implications of an Iranian Victory Over Iraq: **b3**

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**b3** An Iranian victory over Iraq would **b3**

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**b3** Iraq's Soldiers: Plodding Through the War **b3**

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Iraqi soldiers fight loyally for their country and are capable of performing their assigned duties, but their performance is impeded by poor morale and incompetent leadership. Nonetheless, Iraq's soldiers probably will go on fighting for their country as long as they believe Iran is a threat that can be resisted. **b3**

**b3** Draft Avoidance in Iraq **b3**

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Despite its desperate need for manpower to oppose Iran, Baghdad does not rigorously enforce the draft because of fears it will antagonize potentially disruptive elements of society. To still a rising tide of protest over its inequitable draft policies, Baghdad will probably tighten up on student deferments this summer. **b3**

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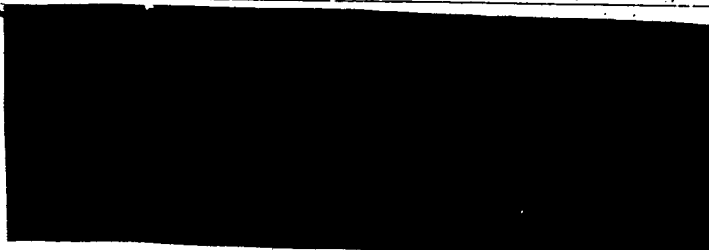
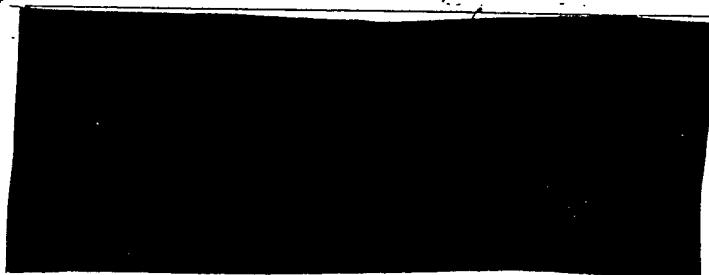
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b3 Succession Struggle in Iran: If at First You Don't Succeed . . . b3 15

Assembly Speaker Rafsanjani probably engineered the selection of Ayatollah Montazeri as Khomeini's successor before Khomeini's death to forestall challenges and to allow Montazeri to consolidate his position, but key leaders and groups in the regime oppose this choice and may try to force the naming of a leadership council after Khomeini dies. b3

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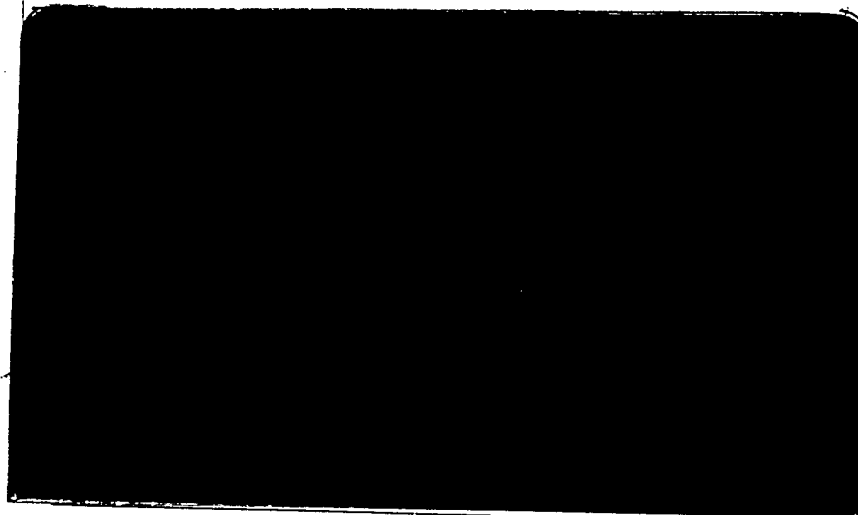
Egypt's economic difficulties have become so serious as to raise doubts whether President Mubarak or any near-term replacement can successfully extricate the country from its downward spiral. Should secular rule founder on the economic issue, it is possible that an Islamic fundamentalist-inspired regime could come to power. b3



Declining Security in West Beirut and the Future of the American University b3 29

The continuing power struggle among Lebanon's Muslim militias is transforming West Beirut—once the major commercial, intellectual, and tourist center of the Arab world and still the home of the American University of Beirut—into a lawless, militarized zone contested by confessional and ideological factions. b3

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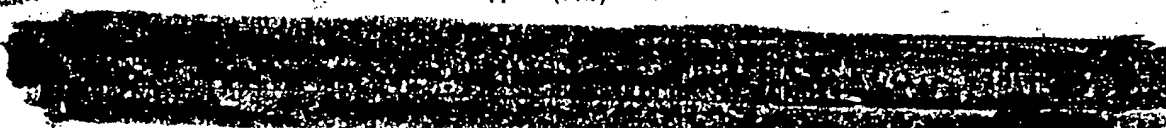
Sri Lanka: Terrorism on the Rise (C NF)

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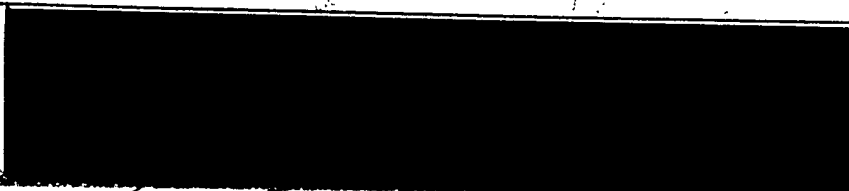
After three years of guerrilla warfare, Sri Lankan Tamil insurgents are attacking the predominantly Sinhalese south.

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President Jayewardene's failure to prevent the bombings is likely to weaken his political support. (S NF)



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Near East and  
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Articles

Implications of an Iranian Victory  
Over Iraq: [REDACTED] b3

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An Iranian victory over Iraq [REDACTED]

[REDACTED]  
would reinforce Iran's commitment to export its Islamic revolution, strengthen the position of Iranian radicals within the regime, and encourage Shia militancy throughout the Gulf. These developments would outweigh the difficulties Iran might experience trying to keep a pro-Iranian regime in power in Iraq.

The Iranians still believe the overthrow of the Iraqi Ba'thist regime—not just the removal of President Saddam Husayn—and the establishment of an Islamic republic in Baghdad are possible. Khomeini is convinced of this, and, as long as he rules Iran, there will be no compromise on this objective. There is only a slim chance of a change in policy after his departure.

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[REDACTED]  
The Iranians will not be deterred by their Army's limited logistic capabilities or by the risks of broadening the conflict. Although a hefty dose of pragmatism has in recent years influenced Tehran's policies on key issues, the clerics' attitude toward the war exhibits the same sort of religious fervor and

single-minded belief in the rightness of their cause that motivated their campaign to oust the Shah. As in that campaign, the Iranians believe they can prevail against all odds without compromising. Saddam Husayn has replaced the Shah and the United States as the evil that good Iranian fundamentalists must battle.

Several factors explain Iranian fanaticism on the war:

- The Iraqis were the aggressors, so the Iranians believe justice and right are on their side.
- The secular regime in Baghdad deviates from Islam's true path and, therefore, is a prime example of a corrupt Muslim regime that all true believers must oppose.
- The Ba'thist rulers are Sunnis and Arabs, the traditional enemies of the Shia Persians. These longstanding animosities add a nationalistic fervor, even though Tehran officially disavows such motivations.
- Khomeini and his followers remain bitter over their expulsion from Iraq by Saddam in 1978 to appease the Shah. Thus, the war is personal, as well as religious and nationalistic.

Iran's Strategy

b1  
[REDACTED]  
The step-by-step strategy Iran is pursuing does not require the Iranian Army to conquer all of Iraq in one sustained offensive. Iran's leadership probably hopes first to gain control of a major slice of territory in southern Iraq, including an important city such as Al Basrah, and to establish a Shia-dominated Islamic republic.

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### Underestimating Iran

*In assessing whether Iran can defeat Iraq and pose a serious threat to other regimes in the region, it is useful to review some of the past judgments about the clerics that led to significant underestimations of their capabilities. These included such assumptions as:*

- *The absurdity of the idea that an anachronistic cleric like Ayatollah Khomeini can overthrow the Shah.*
- *Khomeini, after he has overthrown the Shah, will retire peacefully to Qom, where he will gently prod the government along the Islamic path but spend most of his time contemplating the finer points of Islamic theology, leaving moderate secular politicians to govern.*

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- *The clerics' hold on power is weak, and the Army is demoralized. An Iraqi invasion will sweep the regime away and end the fundamentalist threat.*

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Should Iran achieve such a large bridgehead, it would at first adopt a defensive posture against Iraqi forces and consolidate the power of the Shia entity. In a bid to win the loyalty of the Shias—a majority of the Iraqi population—the Iranians probably would avoid the excesses that followed the clerics' seizure of power in Tehran and emphasize efforts to broaden the new regime's support. Iran would attempt to convince Iraqi Shias in the conquered territory that their Shia religious identity takes precedence over their Arab ethnic identity and that they should go with the winner. We believe this strategy is a reasonable one. Many Iraqi Shias might be willing to accept Iranian

hegemony as a less onerous choice than continued loyalty to a Ba'thist regime that the Shias have never really liked.

Once Tehran felt satisfied about the security of the new Shia entity, it would renew military pressure against the severely weakened Baghdad regime, confident that more fighting would further demoralize the weakened Iraqi Army and lead finally to its disintegration. Tehran would work hard to convince the Iraqi Shias—who comprise 75 percent of the Army—to desert. The emotional appeal of, eventually freeing the Shia holy cities of Karbala and Najaf from Sunni rule would be a powerful incentive to the Iraqi Shias to join the Iranians and would boost popular morale in Iran. The Iranians would hope the dissolution of Iraqi resistance would pave the way for the establishment of a pro-Iranian regime in Baghdad with a minimum of additional fighting.

An Iranian victory along these lines would permit Tehran to cause trouble in other parts of the Gulf by freeing more resources to devote to this mission. Moreover, the defeat of the Iraqi Army would revitalize the Iranians' commitment to the violent export of their revolution. Victory over the despised Ba'thists would reinforce the Iranians' belief that Allah, time, and truth are on their side.

### Radicalism Revitalized

Any hope that victory would favor moderate trends in Iran ignores the fundamental impulses of the Iranian clerics and their perception of recent history. In eight years they have:

- Overthrown the US-supported Shah without compromise.
- Held the US hostages for over a year without compromise or retribution.
- Triumphed over their secular and leftist rivals in the anti-Shah coalition without compromise.

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- Repelled an Iraqi invasion and taken the war into Iraq despite minimal international support.
- Confronted the full might of the US and Israeli militaries in Lebanon and forced both to retreat without compromise or retribution.
- Played midwife in Lebanon to a thriving radical Shia movement, Hizballah, which continues to gain ground at the expense of more moderate Muslim groups and is well along toward the establishment of an Islamic republic in Lebanon despite opposition from Syria and Israel.

If the Iranians add the Iraqi notch to their belt, they will be emboldened to continue their export of the revolution, rather than pause to concentrate on internal economic problems. Iranian moderates who might favor a domestic focus are likely to be overwhelmed by radicals arguing that it would be blasphemous for Iran to turn aside from Allah's chosen path, when its string of victories has proved the righteousness of its cause. The radical clerics would emerge stronger than ever, and they would favor going after the next target, the moderate Arab regimes in the Gulf. The war has restrained Iran's subversive efforts in the Gulf. Tehran has hoped to limit Arab support for Iraq—or even to drive a wedge between them and Baghdad—by cultivating good bilateral relations with the littoral states. The defeat of Iraq would remove this restraint.

An Iranian victory over Iraq is certain to impress the Shias in the Gulf. More Shias will be attracted to the fundamentalist cause. It will encourage pro-Iranian fundamentalists in the Gulf to press their cause more openly and actively. In some cases—notably Bahrain—the militants could attempt to overthrow the government. The Iranians, even if they favored a degree of caution, probably would fear losing credibility if they attempted to rein in the activities of the large number of militant Shias they have trained from throughout the Gulf.

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## **Iraq's Soldiers: Plodding Through the War**

Iraqi soldiers fight loyally for their country and are capable of performing their assigned duties, but few are driven by the fanatic zeal of their Iranian counterparts. The most serious impediments to their performance are poor morale and incompetent leadership. The seemingly endless nature of the war and the loss of Al Faw probably are causing many soldiers to become increasingly demoralized and disillusioned with Ba'thist rhetoric. Nonetheless, in the short term, their strong sense of national pride will continue to motivate them to fight.

### **Who Is the Iraqi Soldier?**

Almost all Iraqi males who are 18 or older are required by law to serve in the regular armed forces for at least two years. The length of the war and Iraq's limited supply of manpower have made it difficult for many Iraqi men to avoid extended service. The government grants some deferments to students if they maintain their grades and has had difficulty conscripting Kurds. About the only other way for a healthy Iraqi male to avoid service is to have connections in the regime.

Some soldiers volunteer for service to receive the substantial benefits that Baghdad offers to recruits and their families and because they realize that they eventually will be required to serve anyway. In addition to monthly pay ranging from 50 dinars for a private to 400 for a general (1 dinar is equivalent to about \$3.12), a soldier and his family are eligible to receive a variety of service rewards. Although the government, because of economic difficulties, has discontinued some benefits it offered earlier in the war, it still provides families of soldiers killed in action free housing and schooling for their children. Veterans are given free medical care, public transportation, and admission to schools and colleges and are allowed to purchase cars at reduced prices.

### **Quality of Troops Declining**

At the beginning of the war, Iraqi troops were fairly well trained, organized, and equipped compared with other Middle Eastern forces. In our view, however, the regime's efforts to quickly replace its losses in frontline units have resulted in a decline in the quality of most soldiers. For example, Baghdad has extended service requirements to include older, less physically fit men—some 40-year-olds recently were called up for commando training.

### **Why Does He Serve?**

We believe the Iraqis continue to fight out of a strong sense of nationalism and because of a traditional and deep-rooted animosity for their Persian neighbor.

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[REDACTED] Many soldiers are illiterate and have few skills that can be readily used by the military. [REDACTED]

Iraqi soldiers suffer from poor leadership. Although there are exceptions, for the most part junior officers tend to be indecisive and inexperienced. Although Iraqi troops probably are willing to go into battle, their leaders fail to imbue them with a sufficiently aggressive spirit and confidence in their own abilities. The regime also has followed a policy of continually switching officers in the belief that the primary loyalty of the troops should be to Saddam. Units consequently cannot benefit much even if they have capable commanders. [REDACTED]

efforts are counterproductive. [REDACTED]

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[REDACTED] we believe general morale problems and heightened tensions with Ba'thist officers will gradually weaken and perhaps destroy the soldiers' resolve to continue fighting for Saddam. [REDACTED]

Low morale is reflected in the large number of desertions, a serious problem for Baghdad, given its manpower shortage. We suspect that the majority of the soldiers leave their units to spend time with their families rather than for ideological reasons, but their absence nonetheless hurts their unit's performance.

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[REDACTED] Tougher regime measures—men on the street are subject to identification checks by military or civilian authorities—apparently are failing to stem the tide. If caught, deserters usually are imprisoned for two or three weeks and then sent back to the front. [REDACTED]

**Complaints About Baghdad's Strategy Increasing**  
Open complaints about Baghdad's conduct of the war have been rare because of the regime's pervasive and ruthless security apparatus, but we believe this is starting to change. [REDACTED]

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We believe that the regime will be unable or unwilling to resolve morale problems any time soon. Efforts to inculcate soldiers with Ba'thist propaganda alone will be insufficient. Ba'thist ideology appears to have little appeal to most Iraqis, and in some cases Ba'thist

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Iraq's troops are unlikely to develop loyalty for any rival to Saddam because of the rapid changes in military commanders at the front. Moreover, they can do little on their own to bring down Saddam because tight regime security measures effectively prevent organized dissent from developing. As morale declines, however, and soldiers continue to joke about and criticize the regime, Iraq's security forces may become less intimidating. Such a development coupled with increased concerns that Iraq may lose the war could eventually embolden some officers to consider replacing Saddam with a more effective leader.

#### Outlook

Iraq's soldiers probably will go on fighting for their country as long as they believe Iran is a threat that can be resisted. War weariness and sentiment that Baghdad's strategy is futile, however, appear to be gradually eroding support for Saddam and the Ba'thists. In May, Baghdad began what it calls its new "active mobile defense" strategy—pressing Iran at several points along the border and seizing some territory. We suspect that few frontline troops will be fooled into believing that such a strategy will make a difference or that their lot in the war will change much. Most troops probably will continue to see themselves caught in an endless and unwinnable war, and continuing high casualties will reinforce this view.

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## Draft Avoidance in Iraq

Despite its desperate need for manpower to oppose Iran, Baghdad does not rigorously enforce the draft because of fears it will antagonize potentially disruptive elements of society. Some Iraqis—Kurds and college students, for example—have been able to avoid service with little or no punishment. Others—particularly the Shias—are compelled to perform multiple tours of duty at the front. The regime seems to demand sacrifices from those it believes it can coerce, while sparing others with political clout. To still a rising tide of protest over its inequitable draft policies, Baghdad probably will tighten up on student deferments this summer.

### Iraqi Conscription

Iraq has found it difficult to build and maintain a large military force to fight the Iranians. The country's population of 15.5 million is only one-third that of Iran, and the regime has been forced to use conscription to assemble an adequate army. Iraqi males are required by law to serve two years of active duty when they reach 18. After that they are placed in the reserve for an indefinite period.

In theory the draft is nondiscriminatory, but in practice individuals and whole sectors of Iraq's society have managed to evade service.

some civilians beat the draft by having their jobs declared essential to the war effort. Others volunteer for alternative service. Members of Iraq's ruling Ba'th Party, for example, join the party's militia, the so-called Popular Army. As militiamen they perform support duties that release other Iraqis to serve at the front. Baghdad is filled with "portly Ba'thists parading around in uniform who obviously have never been in battle."

The two largest draft exempt categories, however, are college students and Kurds. Students are deferred from the military so long as they maintain acceptable grades in school. The Kurds are not required to serve at all.

### Students and the Draft

The government's policy of granting deferments to students is extremely liberal. Moreover, many students take advantage of the policy by deliberately prolonging their studies to avoid service. It is not uncommon for a man in his early twenties to still be in ninth grade. wealthy Iraqis send their sons abroad to study; an Iraqi may remain abroad studying for up to five years.

The government's liberal policy on college deferments appears to be motivated by concern about the repercussions of tighter policies.

The regime tries instead to lure students into service with cash rewards, but it has had only limited success.

### The Kurds and the Draft

The government officially exempted Kurds from military service in 1983 after repeated attempts to draft them had failed. An ethnic minority, the Kurds have little loyalty to the Arab nationalist regime in

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b3 Baghdad, and, rather than submit to conscription, they formed antiregime guerrilla bands. [REDACTED] Baghdad decided its efforts to draft the Kurds were only swelling the guerrillas' ranks and granted the community a blanket exemption. [REDACTED] b3

Unable to force the Kurds into the Army, the government has tried, in effect, to buy them off. It has formed Light Battalions made up entirely of Kurds, and these have proved relatively popular—largely because service in the battalions is remunerative.

b3 [REDACTED] b3 Baghdad has discovered, however, that there are drawbacks to employing the Kurds as mercenaries. They tend to be extremely independent. [REDACTED] a battalion commander revolted last month after the government tried to press him to supply more fighters. Baghdad eventually used elite Republican Guard units to quell this insurrection.

#### Drafting Shias

b3 [REDACTED] b3 The reluctance of important segments of the population to support the war has forced the regime to turn to what formerly was Iraq's most underprivileged group—the Shias. Before the war, Shias in Iraq were discriminated against by the dominant Arab Sunni community. The Shias, however, have shown themselves willing to accept military service. Some support the war out of hostility to the "Persians," the Arab Shias' traditional enemies, while others lack influence to avoid conscription. [REDACTED]

b3 [REDACTED] b3 The regime has heaped rewards on the Shia community to compensate them for their sacrifices in the war and to win their loyalty. For example, it has

promoted numerous rehabilitation projects in Shia areas. It rebuilt the Shia slum—Al Thawrah—in Baghdad and renamed it Saddam City. It has refurbished Shia mosques and shrines, and Saddam—although a Sunni—frequently worships in these to maintain Shia support. Perhaps the biggest concession to the Shias has been to include them in the top rank of the Ba'th Party. Previously the party was dominated by Sunnis, but, under Saddam, several Shia politicians have assumed high government posts. [REDACTED] b3

#### Outlook

b3 [REDACTED] b3 After the recent disastrous defeat at Al Faw, Baghdad is under pressure to expand the number of recruits available for military service. The heavy losses inflicted there have alienated many of the Shias who are the mainstay of the Iraqi forces. [REDACTED] the "little people" are growing restive because they perceive injustices in the regime's draft policies. Their principal complaint is that, while they are performing successive tours of duty at the front, others who have been exempted are safely walking the streets of Baghdad. [REDACTED] b3

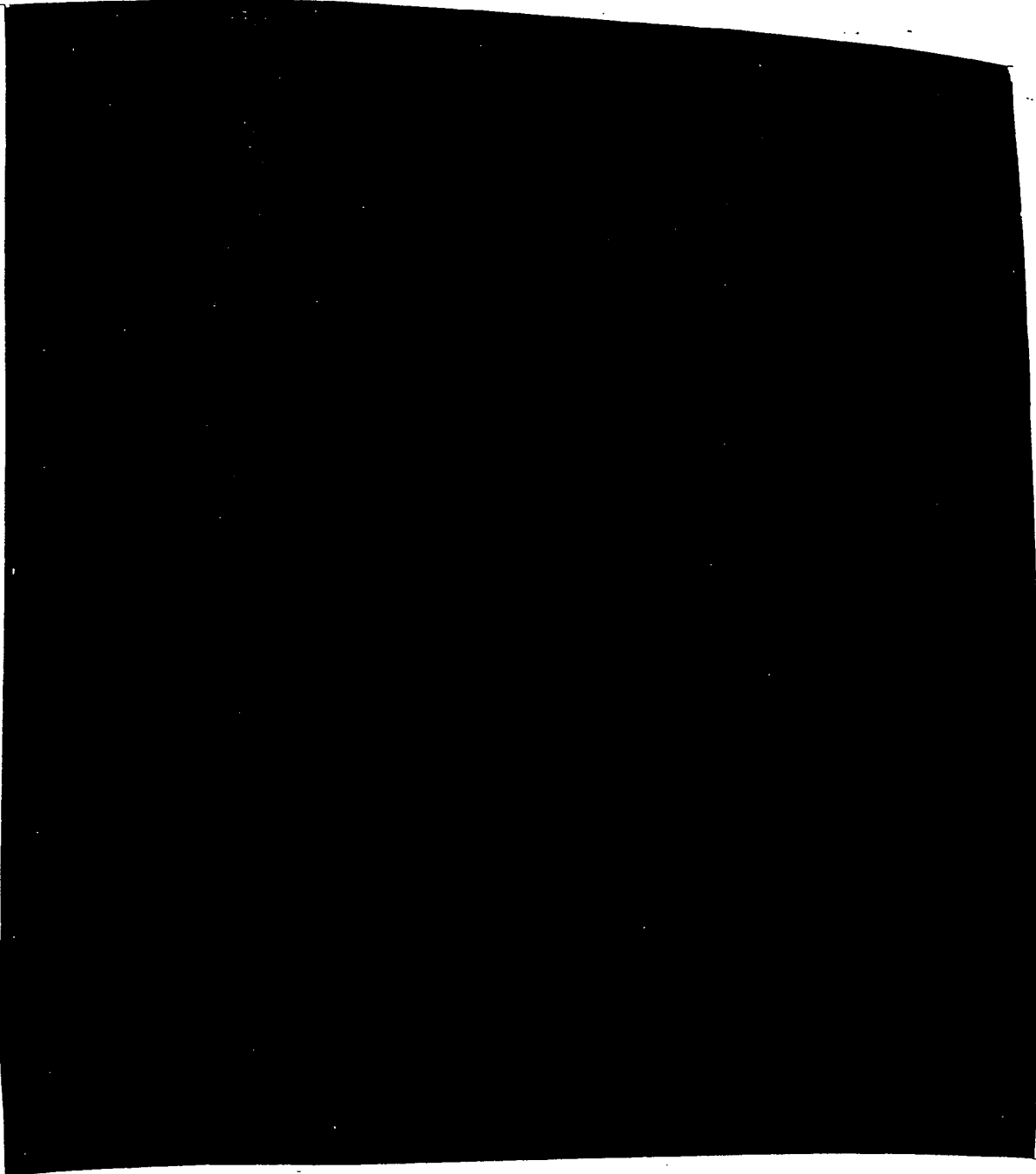
b3 [REDACTED] b3 We do not believe the regime can coerce the Kurds into performing Army duty. As long as the Kurds have their mountains to hide in, government attempts to conscript them are unlikely to succeed. Instead Baghdad will continue its policy of employing Kurdish tribesmen as mercenaries. [REDACTED] b3

b3 [REDACTED] b3 We believe the regime's policy of granting liberal deferments to college students will soon be ended. [REDACTED] reports are circulating in Baghdad that students will be required to attend special military camps this summer. The camps supposedly will be two to three weeks in duration and will provide basic military training. The camps, in our view, represent the initial step in a government plan to gradually call up students for military duty. [REDACTED] b3 b3 b3

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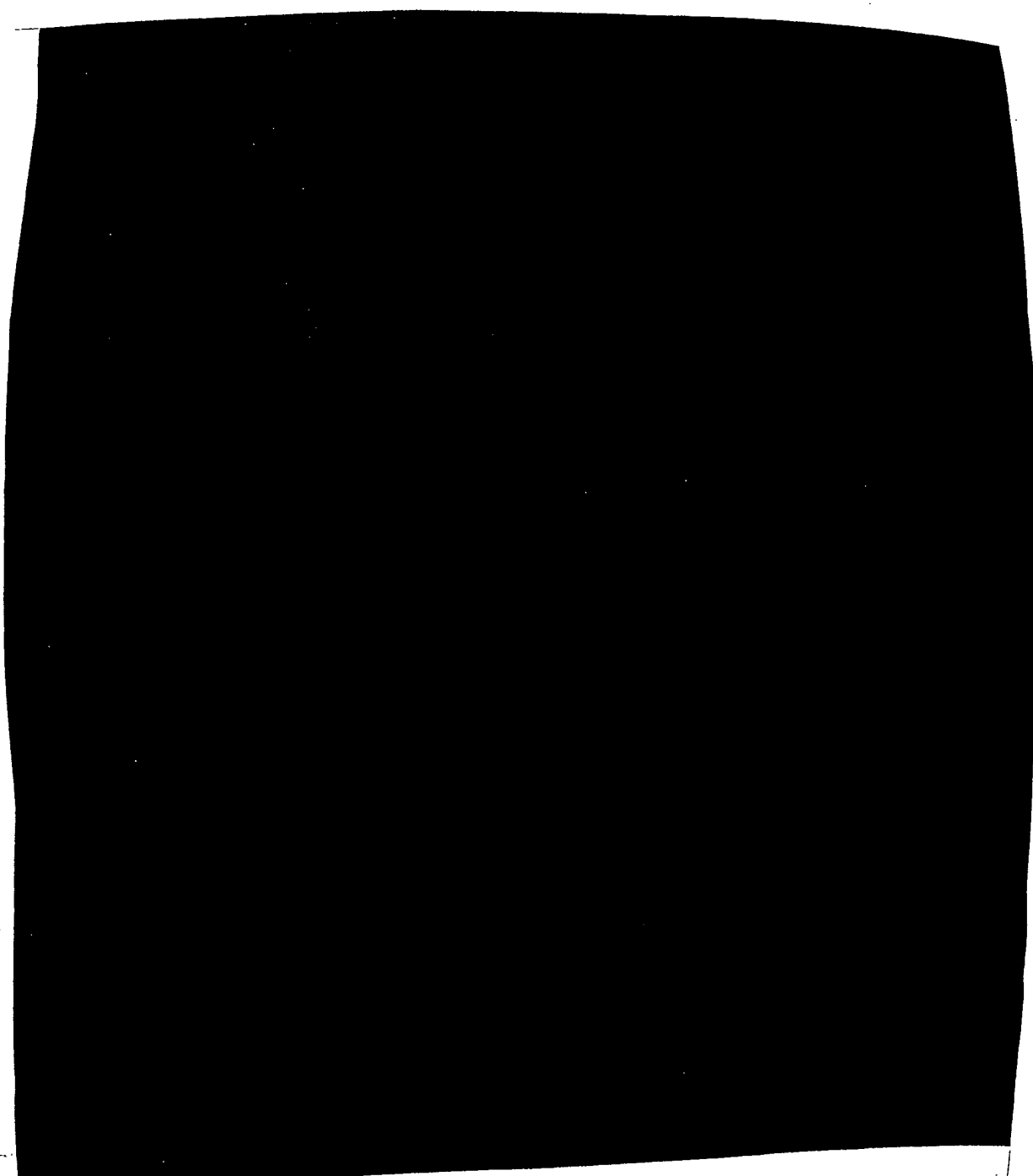


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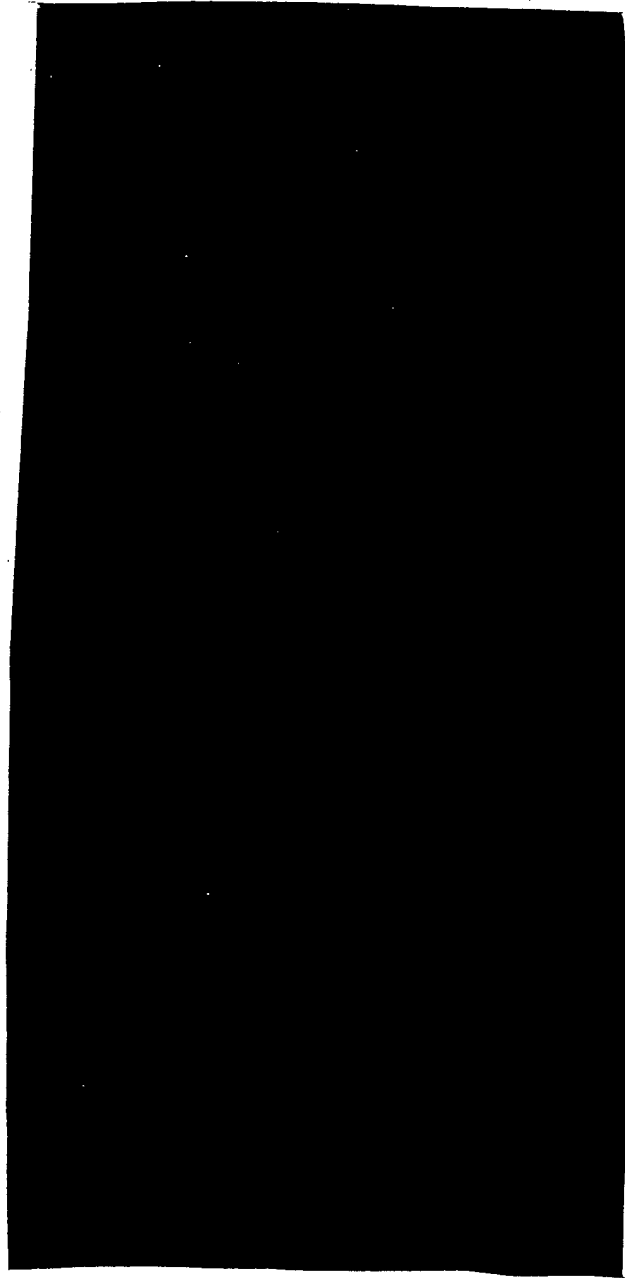
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**Succession Struggle in Iran:  
If at First  
You Don't Succeed . . .**

The leadership succession in Iran will remain a contentious issue after Khomeini dies. Assembly Speaker Rafsanjani, who is positioned to be the real power in post-Khomeini Iran, probably engineered the selection of Ayatollah Montazeri as Khomeini's successor before Khomeini's death to forestall challenges and to allow Montazeri to consolidate his position. Key leaders and groups in the regime, however, believe their interests would be better served by a leadership council and may try to force the selection of one after Khomeini dies. A council would increase the factionalism that has already brought the regime to an impasse on major social and economic legislation and increase the likelihood that the disputes would turn violent.

**Rafsanjani's Maneuvering**

The issue of who will succeed Khomeini is crucial to the stability and legitimacy of the regime. The Constitution allows the selection of either a single outstanding Shia theologian—like Khomeini—to lead the country or a leadership council of three or five clerics. Last fall the Assembly of Experts, a body of 70 or so elected officials designated by the Constitution to select a successor, met and chose Ayatollah Montazeri.

We believe Rafsanjani, Iran's most powerful political figure after Khomeini, masterminded the Assembly of Experts' selection. Rafsanjani has long backed Montazeri as sole successor, almost certainly because he expects to wield the real power after Khomeini dies, with a weak Montazeri acting only as titular leader. Montazeri lacks Khomeini's popularity and religious stature and does not command the political skills of either Khomeini or Rafsanjani.

Khomeini has not publicly endorsed Montazeri, but we believe Rafsanjani had Khomeini's private approval for the move. Khomeini may be withholding public support until he assesses the degree of opposition.

The designation of Montazeri strengthens the prospect that the transition following Khomeini's death initially will go smoothly. The move gives Montazeri an opportunity to establish his leadership credentials and consolidate his position. Since Montazeri's selection, he has received many more Iranian and foreign political visitors than Khomeini. Moreover, Montazeri is stepping up efforts to place supporters in key positions throughout the government. Nevertheless, we believe Montazeri has a long way to go to establish the kind of power base he needs to rule effectively.

**Opposition to Montazeri**

Key leaders and groups in the regime almost certainly remain opposed to the choice. Although no government leader has publicly challenged the choice of Montazeri, President Khamenei, a pragmatist associated with both radicals—who favor government control of the economy—and conservatives—who want to give the private sector a free hand—and a rival of Rafsanjani, has long opposed the selection of a single leader.

Many radicals are opposed to Montazeri's selection. Although Montazeri espoused radical views early in the revolution, he has adopted moderate positions on key issues over the last two years to appeal to conservatives, such as bazaar merchants, whose support will be crucial. Moreover, radicals probably see the selection benefiting Rafsanjani, who has sided with moderates and conservatives on some issues.

Radicals probably worry that Montazeri's lack of prestige and religious stature would prompt him to

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consult leading clerics—most of whom are conservative—on key issues. His efforts not to alienate the conservatives would strengthen their ability to advance their agenda. [REDACTED] b3

Many conservative clerics, on the other hand, oppose the choice of Montazeri for a combination of theological and political reasons. They see the choice of a successor as ratifying Khomeini's concept of rule by a preeminent Shia theologian, which they consider heretical. They also view Montazeri as lacking the religious stature needed to make authoritative pronouncements. Moreover, the conservatives fear that his adoption of their position on some issues is merely tactical and that he will show his radical colors once he has assumed Khomeini's mantle. [REDACTED] b3

Both radical and conservative leaders are likely to try to reopen the succession issue after Khomeini dies and push for the selection of a leadership council. The major factions realize they are unlikely to get a consensus on a single cleric as an alternative to Montazeri and will argue that a council is necessary to adequately represent each of the important regime constituencies. A senior cleric in the Assembly, with close ties to conservative circles in Iran's holy city of Qom, has publicly indicated he considers the selection of Montazeri as only a nomination and has said that the issue must be addressed again following Khomeini's death. The factions probably will allow what they consider a decent interval to pass first in deference to Khomeini's preference for Montazeri and to avoid destabilizing the regime. Both sides will be gambling that a leadership council will better allow them to advance their respective political agendas. In addition, the conservatives probably see a council as helping to undermine the principle of rule by a supreme cleric. [REDACTED] b3

#### Impact of a Leadership Council

A leadership council would intensify the already deep and bitter divisions within the leadership. Ideological differences would be compounded by personal rivalries. Factional disputes now handled behind the scenes would be pushed more into public view, because council deliberations would be more difficult

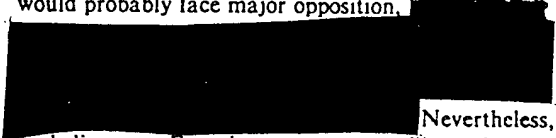
to keep secret. Iranian society probably would become highly polarized as members of the council solicited the support of various groups—such as bazaar merchants, factory workers, or the urban poor—to promote their own policies over those of others on the council. Moreover, the ability of a single individual to act decisively to establish policy or to resolve an impasse between the factions would be greatly reduced in a leadership council in which three or five leaders, all with equal authority under the Constitution, would have to try to reach a decision. [REDACTED] b3 [REDACTED] b3

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## Egypt: An Islamic Alternative? **b3**

Egypt's economic difficulties have become so serious as to raise doubts whether President Mubarak or any near-term replacement can successfully extricate the country from its downward spiral. Should secular rule founder on the economic issue, it is possible that an Islamic fundamentalist-inspired regime could come to power. In our view, such a government would possess, at least initially, inherent strengths that would make it more capable of initiating a sweeping economic restructuring of Egypt. A fundamentalist government would probably face major opposition.

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 Nevertheless, we believe any Egyptian government will stand a better chance of staying in power and mobilizing society for the difficult challenges ahead if it is identified by the population as more fully Islamic in nature.

### The Near-Term Dilemma

Egypt's acute economic difficulties, drastically worsened by plunging world oil prices, have heightened concern over the vulnerability of the Mubarak government to political instability. Although a change of government is a distinct possibility, it is more likely that Egypt will muddle through this economic crisis. Significant new offers of financial assistance from major international donors may yet develop over the course of this year as the political costs of an unstable Egypt are weighed. In addition, a carefully constructed package of economic reforms that pushes the most difficult adjustments beyond the current year may be sufficient to win IMF endorsement and release of further multilateral assistance, as well as bilateral debt rescheduling.

Yet, no matter whether Mubarak stays or a military-backed successor takes his place, one central fact remains: Egypt is a society that is slipping ever deeper into an economic morass. It is a country whose

consumption far outstrips its capacity to pay. Moreover, it can no longer finance its spending through reliance on international borrowing.

Even more worrying for Egypt's leaders, the gap between demand by the population for goods and services and available resources will continue to grow for the foreseeable future. With 1 million new Egyptians every nine months, demographic pressures alone will ensure a widening gap. Even in the absence of such pressure, Egyptians, at least urban dwellers, will continue to compare their stagnant living standards to the affluence of North America and Western Europe. Thwarted expectations will fuel frustration and anger, which in turn will yield chronic political and social instability.

Hence, the near-term dilemma of any Egyptian government is how to reorient society away from consumption and toward greater savings, investment, and long-term economic growth. The problem in managing such a transition is how to implement economic reforms without reducing what would be perceived by the populace as an unacceptable rise in the cost of basic goods and services. Efforts to revamp Egypt's economy along lines more conducive to sustained growth continually flounder when the political leadership confronts the seemingly insoluble task of reconciling economic reforms with what are considered to be the prerequisites for political stability.

### The Social Contract's Vulnerability

The roots of this political and economic dilemma appear to originate within the terms of the social contract that has developed between the people and Government of Egypt. Islamic concepts obliging the ruler to provide for the welfare of the community as well as more modern Nasirist precepts that stress the

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state's responsibility to provide affordable goods and services to the public undoubtedly underpin much of this contract. Even more relevant, perhaps, are the expectations created following Sadat's endorsement of the Camp David accords in 1978. In return for virtual ostracism from the Arab world, Egypt was to reap the material benefits of its relationship with the United States. Right or wrong, many Egyptians came to view their government's ties to the United States as guaranteeing the economic progress that Egypt so badly needs. In effect, in the absence of other strong sources of legitimacy, the regime has come to rely on its ability to deliver an acceptable standard of living as defined broadly by Egypt's middle and lower classes.

The existence of such a social contract makes it difficult for the Mubarak government or any likely near-term successor to deal with the challenge of economic reform. Any significant move to rationalize and invigorate the moribund Egyptian economy must, of necessity, strike at the heart of current economic expectations, including consumer subsidies and guaranteed government employment. Serious reform measures, while economically imperative, could rob the current regime of much of its legitimacy and, in a very real sense, leave it politically vulnerable.

It is possible that the Mubarak government or a successor could govern and enact reforms by relying on force alone. Conceivably, a government strongly backed by the military should be able to implement reform and maintain social order. Yet, Egypt is not Syria or Iraq, and it is questionable whether, or how long, harsh secular military rule could endure within Egypt. The Egyptian military, as elsewhere, is a reflection of the society from which it springs, and, given the moderate, conflict-avoiding nature of the society, we doubt that junior- and middle-grade officers, to say nothing of enlisted personnel, will relish imposing harsh controls for any length of time. A strong, charismatic leader could probably rule successfully, but, in the absence of such an individual, the regime would have to establish its legitimacy in the eyes of the military rank and file.

#### The Fundamentalist Alternative

A possible alternative, should secular rule break down, would be the accession to power of an Islamic fundamentalist-inspired regime, either civilian or a civilian-military coalition. Such a regime may possess, at least initially, inherent strengths that make it more capable of initiating a sweeping political and economic restructuring of Egypt. For one, its stronger Islamic credentials would probably lend far greater moral authority to its edicts, at least within the lower-middle and lower classes, the social strata most likely to be affected by economic austerity. Second, and perhaps even more important, the economic expectations such a regime generated would probably be lower than those associated with the current government. The population as a whole, given the changed nature of the regime's authority, might be more willing, at least during a honeymoon period, to accept austerity and lowered economic expectations if the regime was perceived as having eliminated corruption at high levels.

Such a regime would face from the very beginning major opposition, not just from the Coptic minority, but from secularized elements in the middle and upper classes. This would be particularly true if the new Islamic regime attempted a radical redistribution of wealth through confiscation of assets and/or punitive taxes on large business earnings. Military opposition could also quickly develop if the officer corps believed its economic and social standings were diminished as a result of Islamic rule.

It is unclear whether the negative aspects of Islamic rule would outweigh the advantages in terms of providing a suitable vehicle for economic reorganization in Egypt. The strong social welfare concepts inherent in Islamic ideology appear in some Muslim countries to have restrained private-sector development and perpetuated the existence of inefficient state-run companies. Islamic banking practices have confused domestic and international bankers alike and added to private-sector uncertainties. Any attempt to throttle private-sector

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development would undoubtedly lead to private capital flight and an exodus of entrepreneurial talent, elements critical to any economic revitalization. The stagnation of the Iranian economy under radical Islamic rule, perhaps more than any other event, serves to underscore the deleterious effect of allowing religious fervor to dominate economic decision making.

The most critical determinant of success or failure in coping with Egypt's economic problems will remain the quality of leadership, whether secular or Islamic. Strong, unequivocal support by Egypt's political leadership of growth-oriented economic measures will be the key to any sustained effort to revive the dormant economy. It remains to be seen whether any political grouping can generate this type of leadership. But such a leadership may have a far better chance of remaining in power and mobilizing society if it cloaks itself more fully in the garb of Islamic legitimacy.

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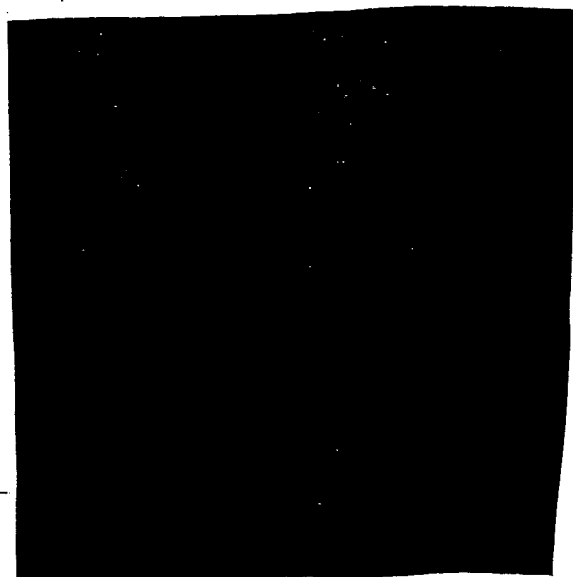
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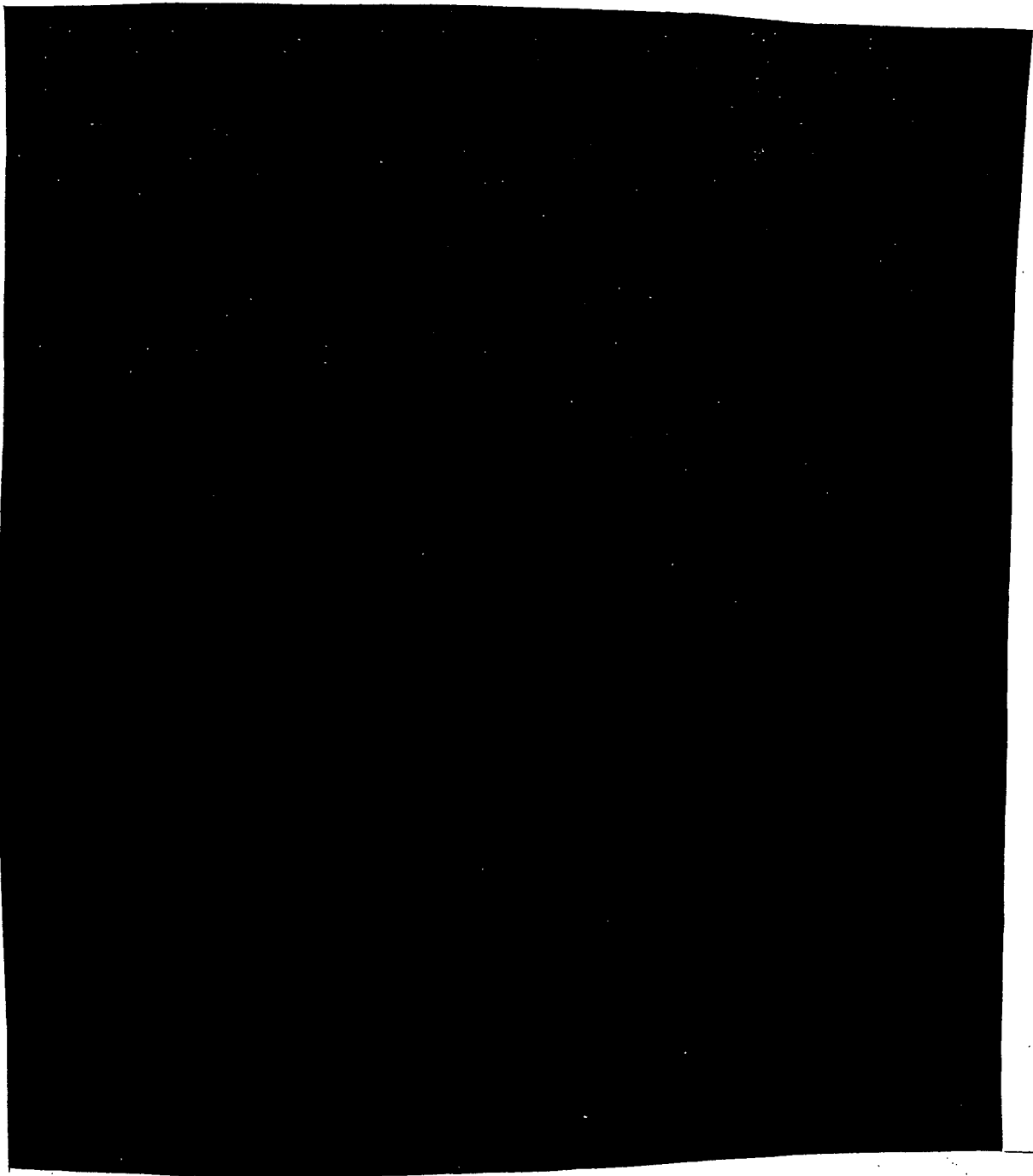


#### Prospects

Despite the many problems raised by the prospect of a fundamentalist government, such a regime need not mean the end of economic reform or accelerated economic growth. Even a strongly fundamentalist government in Cairo, given the less radical tendencies of Egyptian society, would probably be far less extreme than Iran under Khomeini. Such a regime may thus be less likely to reach for radical social and economic solutions. Moreover, staunchly Islamic regimes in countries as diverse as Saudi Arabia and Pakistan, where official encouragement of the private sector has led to impressive economic growth (particularly in Pakistan), demonstrate that Islamic rule and enlightened economic policies are not incompatible.

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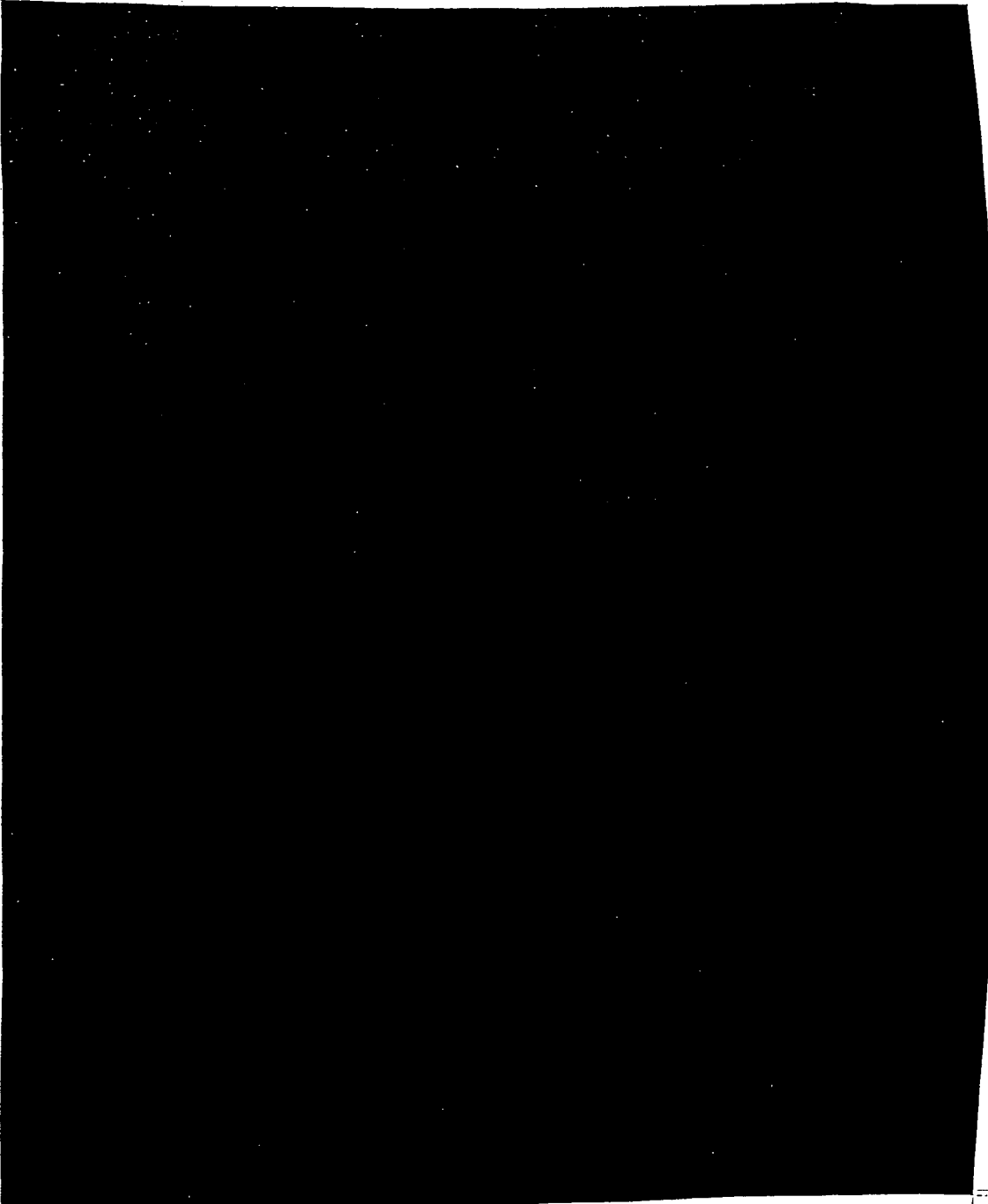
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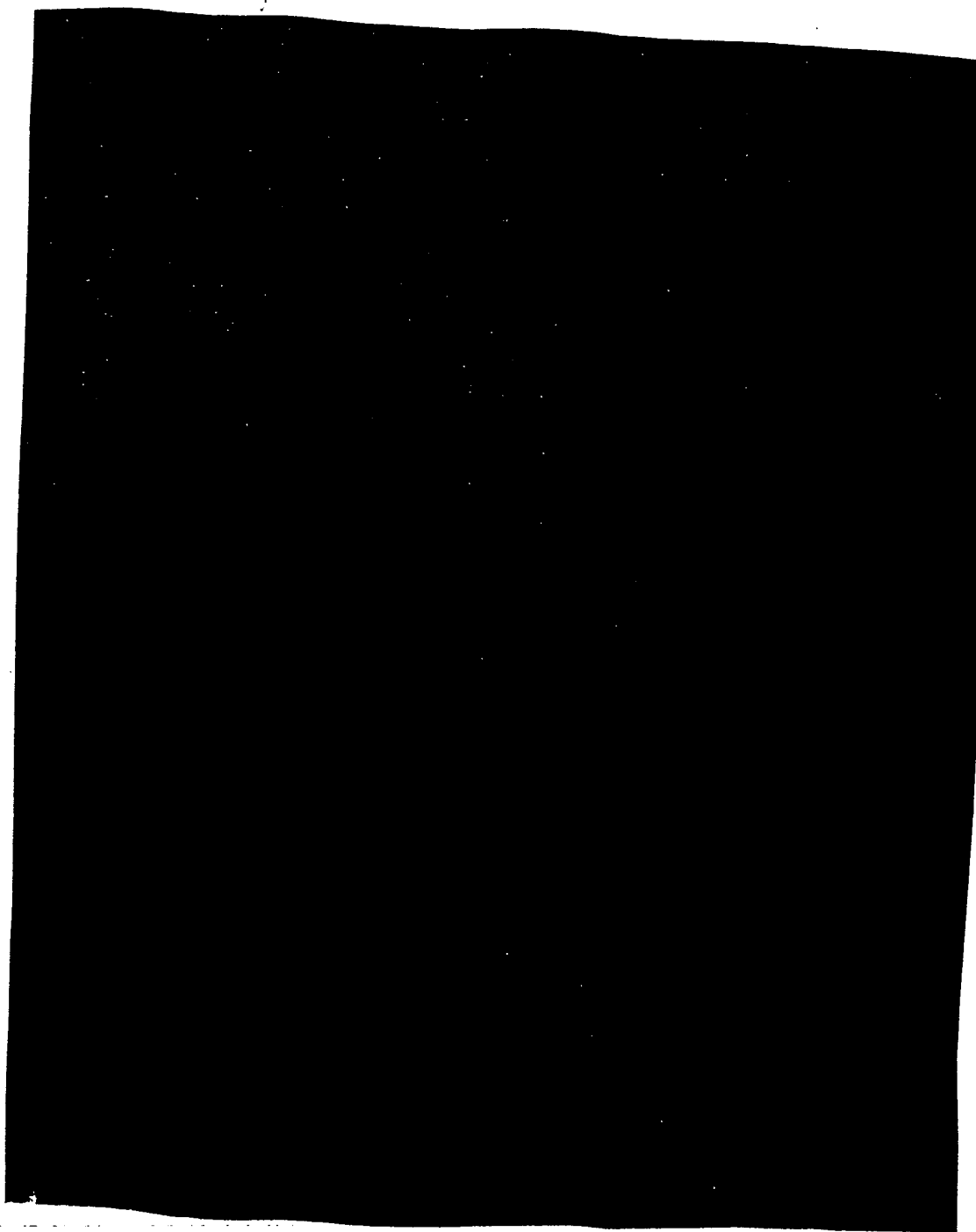
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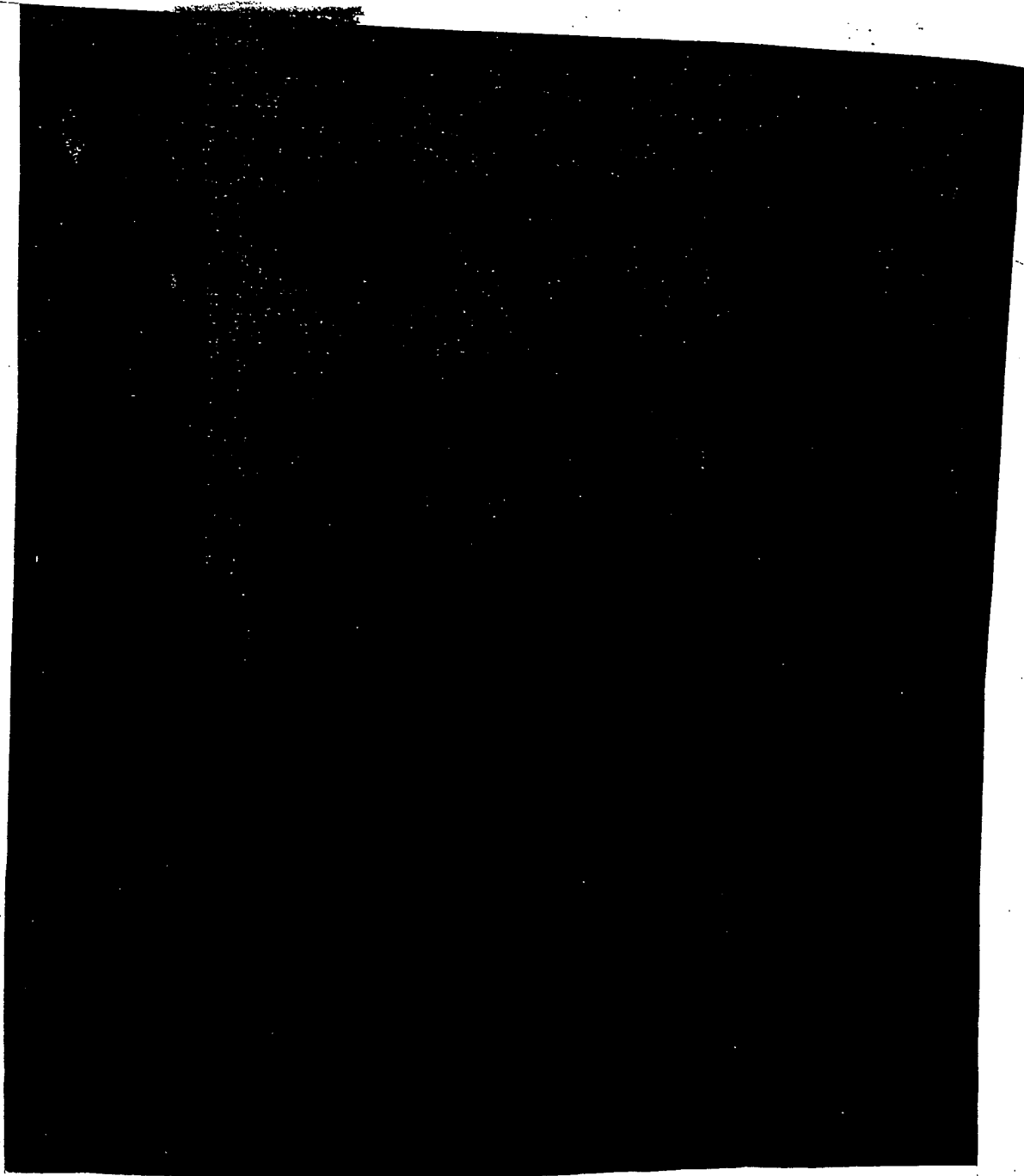


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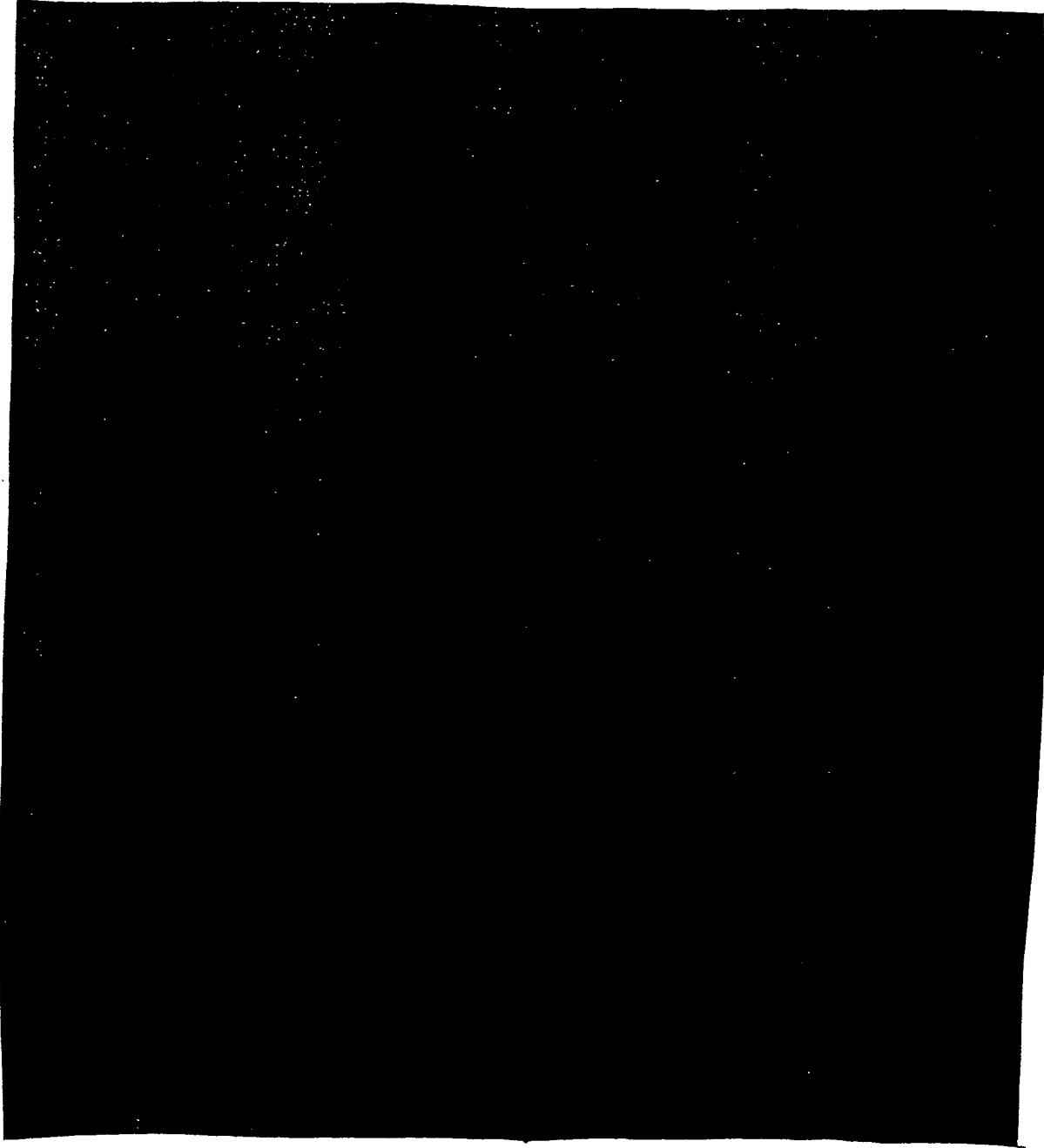
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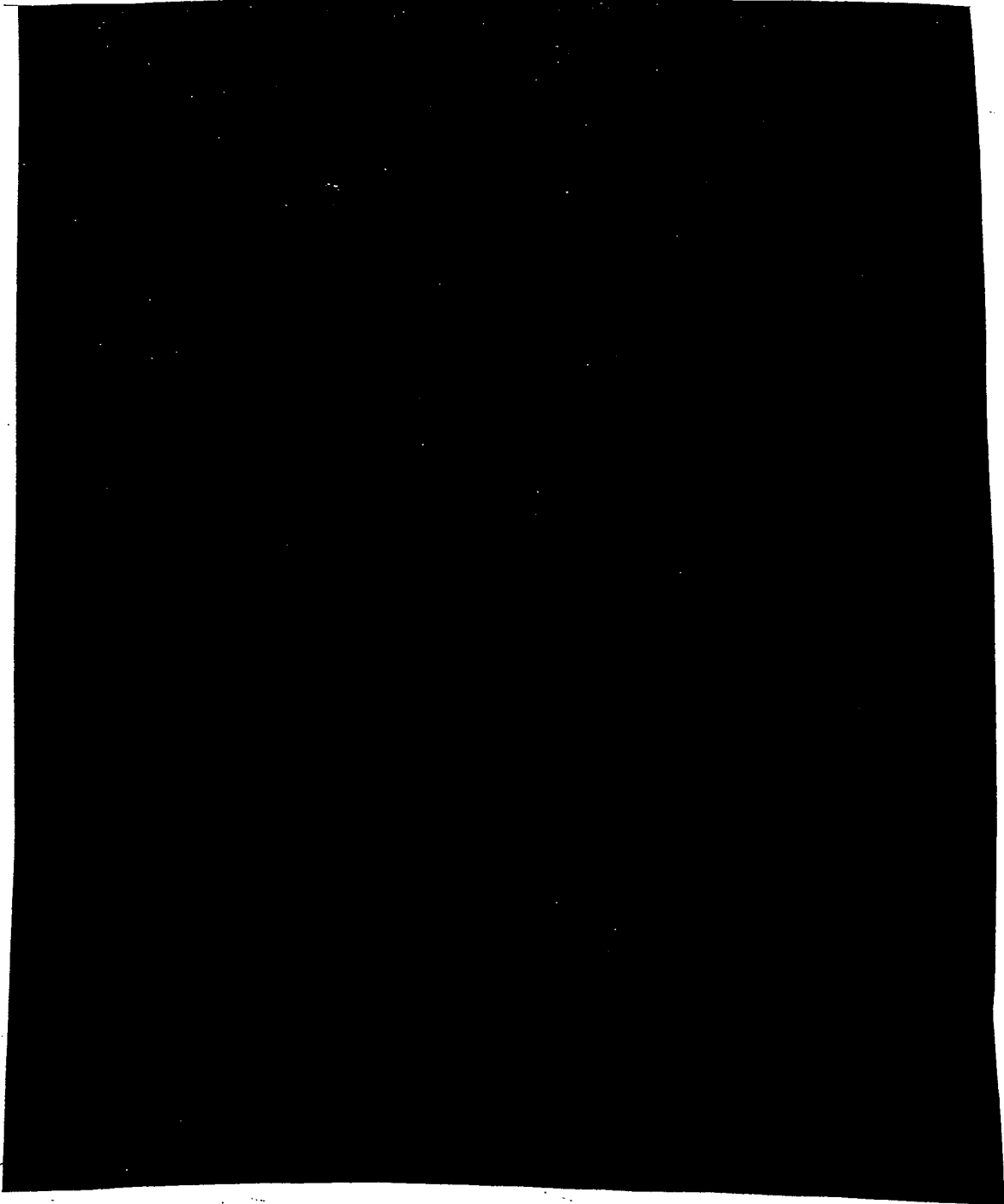
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## Declining Security in West Beirut and the Future of the American University

The continuing power struggle among Lebanon's Muslim militias is transforming West Beirut—once the major commercial, intellectual, and tourist center of the Arab world and still the home of the American University of Beirut—into a lawless, militarized zone contested by confessional and ideological factions. Turf battles, terrorism, rampant street crime, and the lack of centralized authority have made the area dangerous for both local residents and foreigners. The deep schisms between members of the same sect or religious affiliation are giving rise to extremist organizations such as the Shia Hizballah movement, which is bent on transforming West Beirut into a center for Shia fundamentalist activities in Lebanon.

The proliferation of competing militias contributes to increasing political fragmentation and shifting political fortunes—a situation that almost certainly will ensure that West Beirut remains in a state of conflict for the foreseeable future. Whenever one faction appears to be gaining too much turf at the expense of other groups, a realignment quickly ensues assuring a virtual parity between combatants.

The increasing lawlessness in West Beirut has markedly curtailed social and economic activities of Western institutions and at the same time has made them more susceptible to blackmail.

### Background

Since the Israeli invasion of June 1982 and the subsequent departure of the Palestinian fighters from West Beirut, Sunni, Druze, and Shia militias have been aggressively vying for control of the area's neighborhoods. The traditional sectarian neighborhoods are blurred as a result of the continual changing military fortunes of the militias. The result

has been a steady decline in security and safety not only for the remaining few foreign residents, but for the rest of the population as well.

West Beirut today is a patchwork of small areas loosely controlled by confessional and ideological militias and many gangs. The Shia Amal and the Druze militias are the major contenders for power in West Beirut, but smaller, sometimes more extremist groups constantly challenge the authority of the major militias. Many fighters are uncommitted to any single militia and will serve any cause or leader in return for cash.

### Contenders for Power

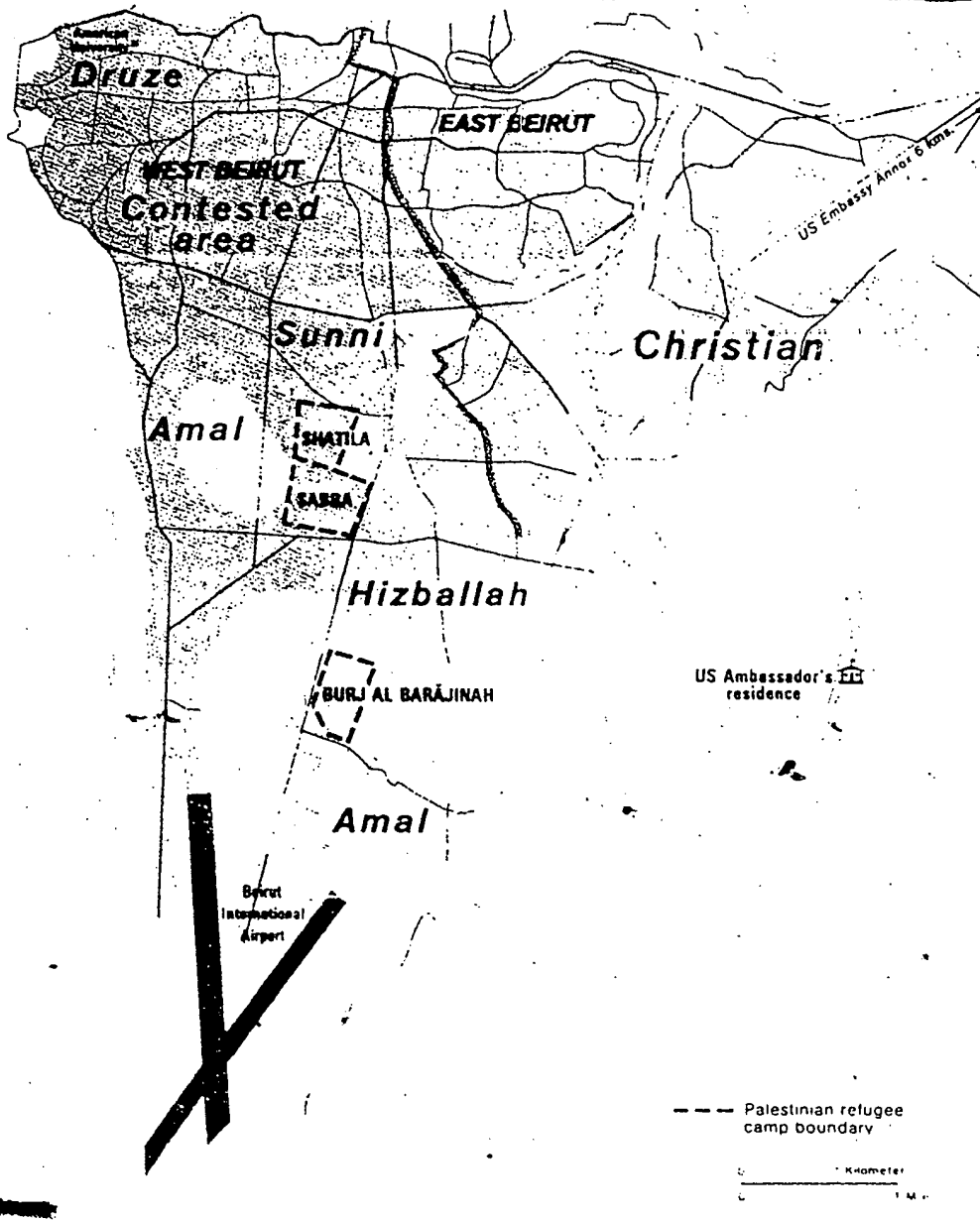
The Camps War between Amal—the mainstream Shia organization—and the Palestinians is enabling the radical Shia group Hizballah to carry out its campaign of terror against both Lebanese and the few remaining Westerners in West Beirut. The growth of Hizballah's role came about as a result of last year's Camp Wars, which pitted the Amal militia and its supporter, the Lebanese Army's 6th Brigade, against the Palestinians in Sabra, Shatila, and Burj Al Barajinah camps.

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# Militia-Controlled Neighborhoods in Beirut



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The Sunnis, who traditionally held a political position second only to the Christians, are now at the mercy of others. Defeated and politically disorganized, the Sunnis of West Beirut, both moderates and extremists, are gradually losing control of their neighborhoods to other militias. Hizballah gunmen are growing in strength in traditional Sunni areas.

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The defeat of the Sunni Sixth of February Movement in early June helped Amal gain control of strategic Sunni territory near the Sabra and Shatila camps. Amal military leaders are eager to consolidate their grip on Sabra and Shatila in order to link up with the sprawling southern Shia suburbs—a move that is likely to be opposed by both the Druze and the extremist Hizballah, who are adamant about preventing Amal from creating a Shia ministate inside West Beirut.

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The Druze—who control significant turf around the former American Embassy, the American University, and the winding beachhead south of the Embassy—want West Beirut to remain free of domination by any single militia. The Druze Progressive Socialist Party has attracted many Sunnis and Kurds to its ranks in the last year because those communities have no strong militias of their own and want to fight the Shia takeover.

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The war among the confessional groups in West Beirut often manifests itself through car bombings, kidnappings, and political assassinations. Each of the major militias is believed to be holding several hundred hostages from other confessional groups. The release last month of 33 political prisoners by the

Christian militia in East Beirut did little to alleviate the deep division between East and West Beirut and in fact led to the kidnaping of Christian professor Nabil Matar from the American University by the previously unknown Independent Movement for the Liberation of the Kidnaped. We believe this movement is an offshoot of the Hizballah.

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No resident or visitor is immune from the rising tide of violence in West Beirut. The foreign community lives in constant fear. Political assassinations are becoming a daily occurrence with attempts frequently directed at Armenians, other Christians, and any other politically active faction.

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#### The American University:

##### A Lamp Set on a Hill in Danger

The American University of Beirut and the American University Hospital are two Western institutions that have endured despite the rapidly declining security around them.

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university and have condemned lawlessness on the campus. More than 60 percent of the institution's students are Shia, most of whom oppose the kidnappings of their teachers and fellow students by the extremist Hizballah. The alumni are so concerned about the institution's well-being that they have formed the Committee for Salvation of American University of Beirut to help oversee security with the local militias and to counter increasing Islamic fanaticism on campus. b3

No Western institution has endured as much anguish as the American University Hospital. The hospital is considered one of the best in the Middle East, but, as the fighting rages in West Beirut, it looks more like a military medical unit under fire than a teaching facility. There is an unwritten agreement among Beirut's warring factions to keep the hospital a neutral zone, but violence often spills into operating and waiting rooms as rival militias are brought in for treatment. Most casualties treated at the hospital are civilians caught in the crossfire—few are private paying patients. b1

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The dramatic decline of the Lebanese pound in recent months and the constant presence of militias loitering on hospital property are preventing paying patients from utilizing the hospital's services. b3

Waves of kidnappings, murders, and threats against university and hospital personnel have drastically reduced the number of both foreign faculty and foreign students. The campaign is aimed against the university's role in promoting Western democratic values. b1 b3

b3 [REDACTED] Repeated strikes by university and hospital personnel have failed to gain the release of kidnaped faculty and staff, but they have succeeded in publicizing the plight of the institution. b3

The violence against the university goes on, but the major militias in Beirut want the university's services to continue and have openly condemned the faculty kidnappings. Druze leader Walid Jumblatt and Shia leader Nabih Barri have repeatedly supported the

#### Outlook

No improvement in the security situation in Beirut is in the cards, but the lack of other credible educational institutions in West Beirut will ensure continued support for both the American University and the University Hospital by local residents. The decline of security around the campus, however, will hamper efforts by university administrators to keep it functioning normally. We cannot assess specifically the impact of declining security on the daily activities in classrooms, but it can only be negative. Nonetheless, students, faculty, and staff generally are striving to safeguard the university's legacy. b3

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Turf battles in Beirut will continue. An entire generation reared in civil war conditions is coming of age in West Beirut. Many young militia members know no other condition. Fighting to them is a major part of everyday life. The accelerating economic decline will most certainly encourage the dwindling middle classes to join ranks with street fighters to survive. [REDACTED]

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The extremists almost certainly will continue to gain at the expense of the moderates. Militancy, particularly in the Shia community, is likely to spread as the political and economic crisis drags on. [REDACTED]

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Moderate Muslim leaders probably will remain afraid to denounce extremists for fear of retribution. [REDACTED]

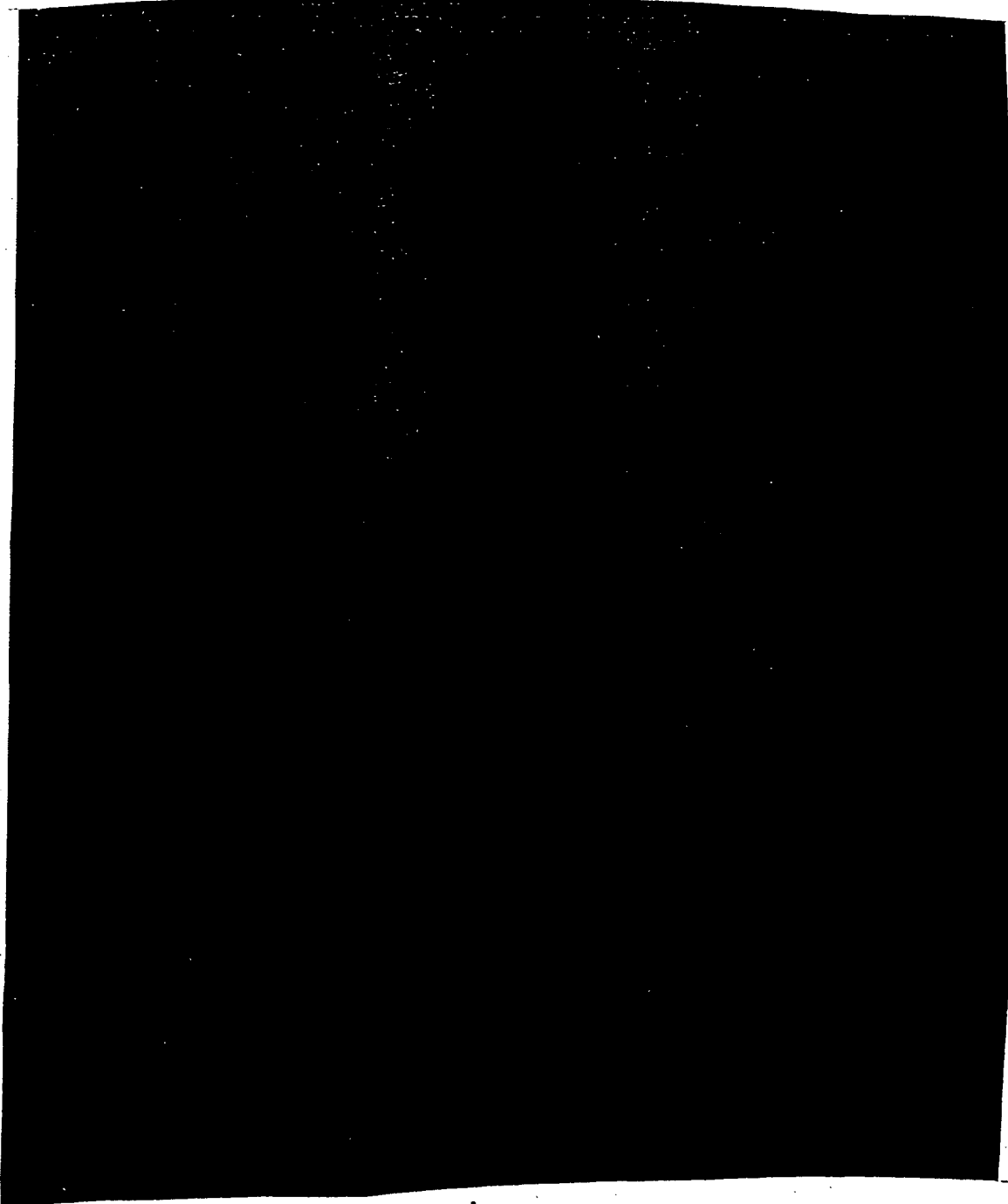
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Hizballah's power in West Beirut is likely to continue to grow unchecked by the other militias. Hizballah's strategy includes the purging of Beirut of foreign influence, the avoidance of prolonged military entanglement with other local militias, the weakening of Amal, and the weakening of leftist militias such as the Lebanese Communist Party. A clash between the Communists and Hizballah elements last February ended in a draw, but Hizballah continues to carry out assassinations against Communist leaders and their supporters. [REDACTED]

Much of West Beirut will remain a contested arena, with the Druze and Amal the leading contenders for power. Realignments and constantly shifting coalitions will most likely ensure that no single militia will control this chaotic segment of the city. Beirutis have grown accustomed to the daily violence around them and are likely to continue to react to declining security by retreating to their neighborhoods for protection. In this environment, the American University will face an uncertain future at best. [REDACTED] b3 b3

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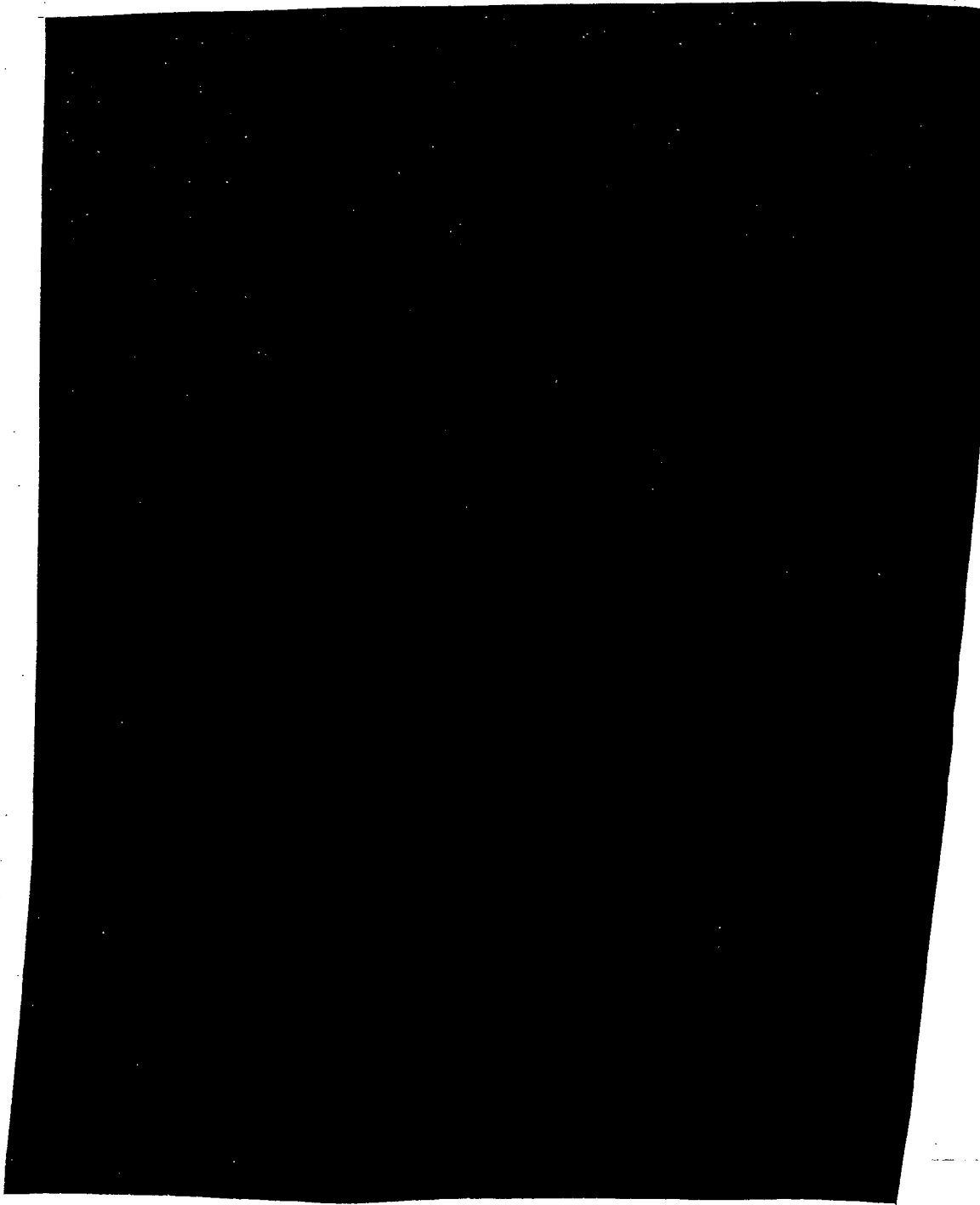
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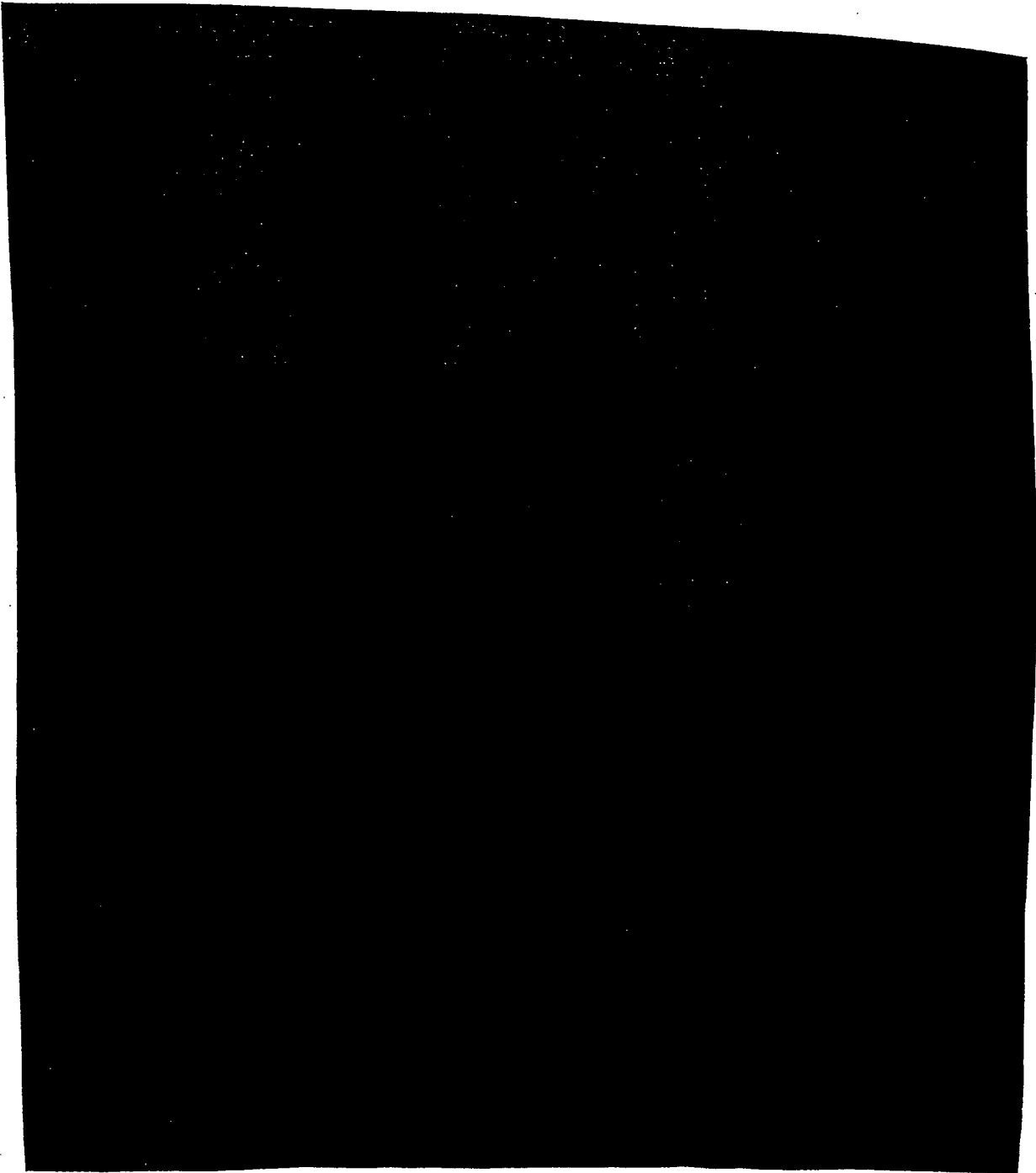
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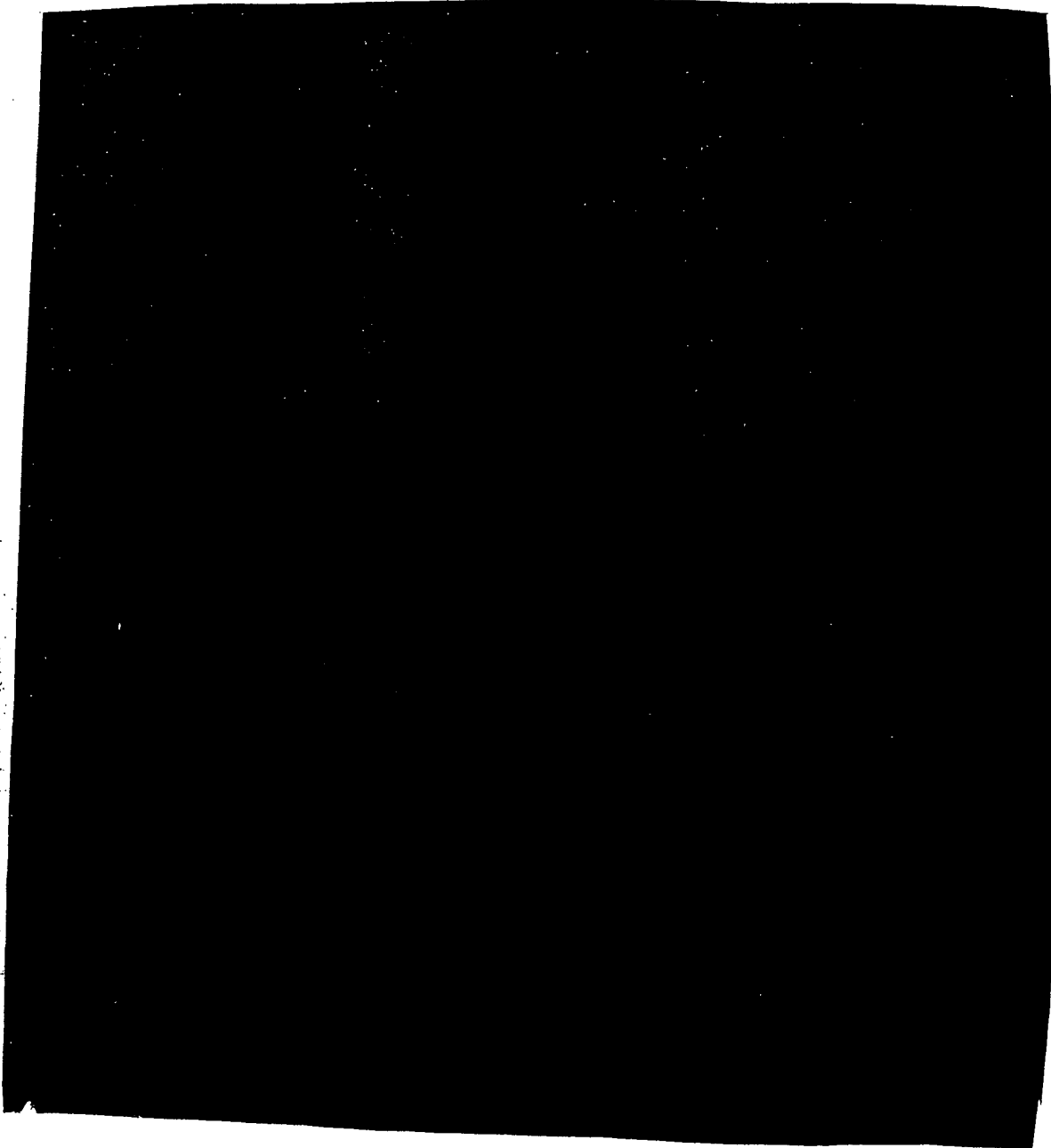


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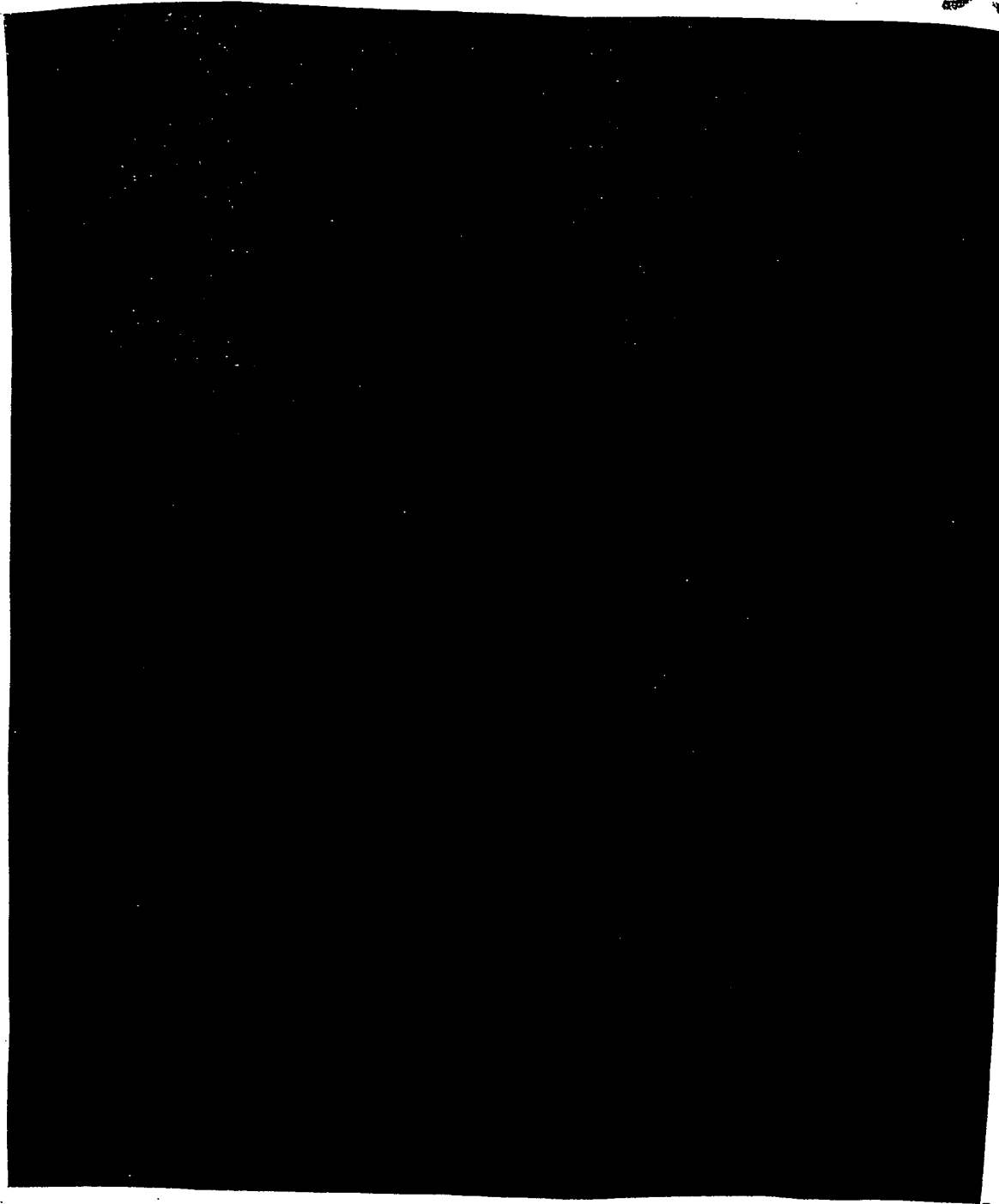
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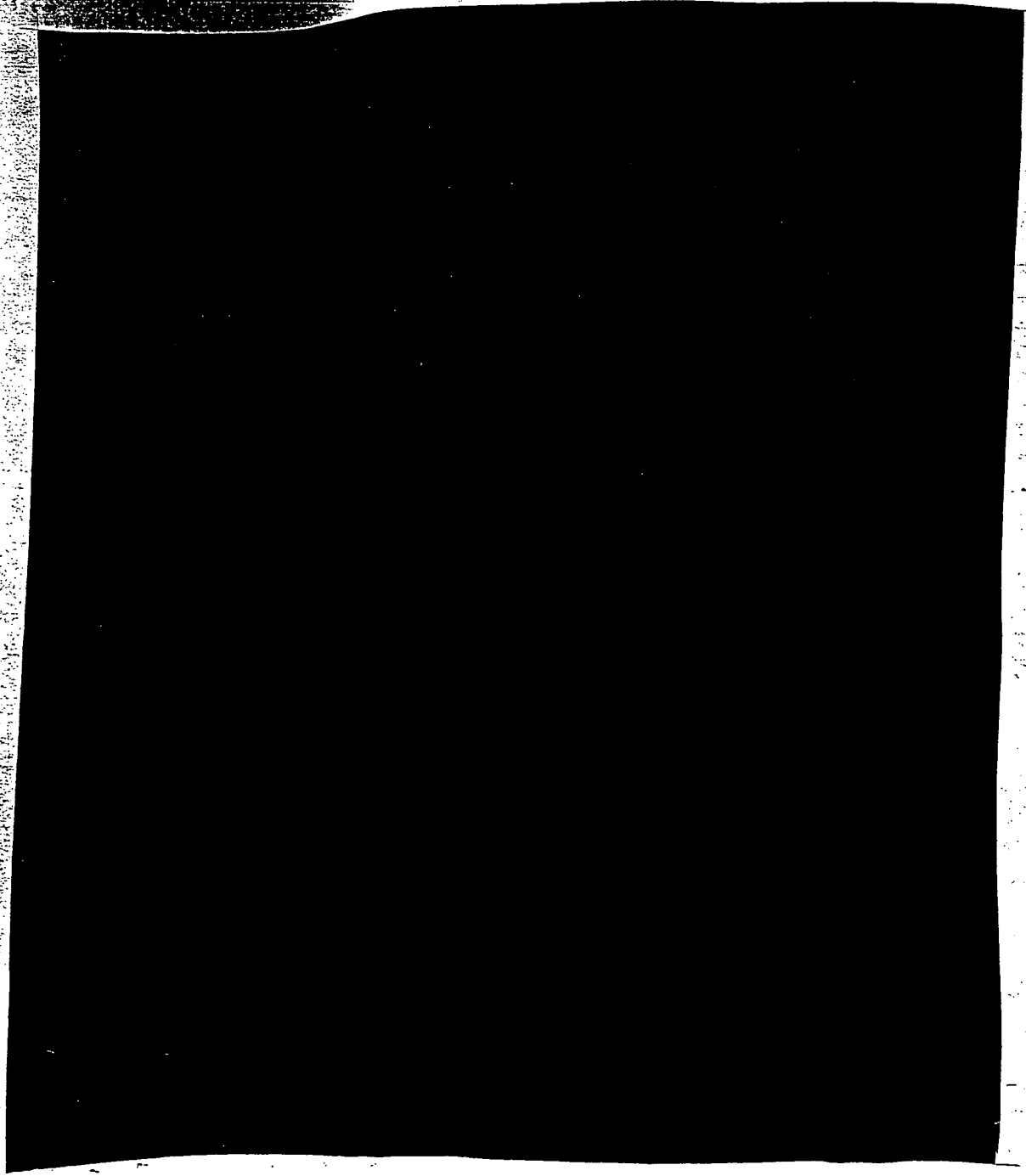
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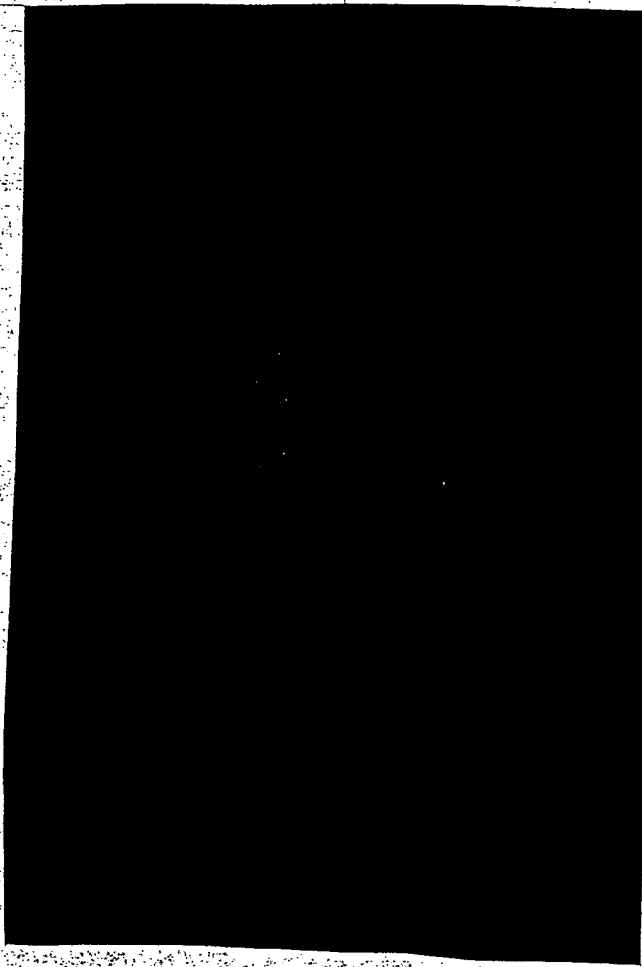


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# Sri Lanka: Terrorism on the Rise

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After three years of guerrilla warfare, Sri Lankan Tamil insurgents are attacking the predominantly Sinhalese south—until now untouched by the fighting. Sri Lanka's capital and other urban centers offer the insurgents potential targets for terrorist attacks that could maximize economic costs to the government and inflict high Sinhalese civilian casualties.

## Sri Lankan President

Jayewardene has weathered two months of Tamil bombings with minimal damage to his political standing. Nonetheless, the government's failure to prevent the bombings is likely to raise opposition from the Buddhist clergy and other members of Jayewardene's constituency.

## New Tamil Strategy

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Seven bomb explosions in the Colombo area during the last two months have killed or injured over 250 persons. Tamil insurgents successfully used explosives against an Air Lanka plane, the Central Telegraph office, a private food processing plant, a city bus, a rickshaw, and two trains. The threat of more bombings has closed many schools, businesses, and some government offices, and has dealt a serious blow to one of the mainstays of the economy—tourism. The bombings have also had a traumatizing effect on the Sinhalese majority and mark, in our view, the beginning of a new strategy by some Tamil groups to force the government to accede to an independent Tamil state.

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The government suspects that the Liberation Tigers of Eelam (LTTE) are responsible for many of the recent bombings.

For the first time since it began operations in the late 1970s, the LTTE appears to be relying increasingly on attacks in the

Sinhalese south in addition to sustaining operations in the north and the east. This shift probably reflects the LTTE's growing resources and a desire to inflict greater damage on the Sri Lankan manufacturing and tourist industries and greater casualties on Sinhalese civilians.

The new strategy may also reflect an attempt by the LTTE to disrupt Indian-brokered talks between the government and Tamil moderates.

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New Delhi has been reluctant to risk including the LTTE and other hardline groups in the negotiations, largely to avoid a repetition of last summer's failed talks between the government and all major insurgent groups. We believe the LTTE will try to block any negotiated settlement that falls short of achieving an independent Tamil state and will not surrender its self-appointed role as the preeminent representative of Tamil interests.

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Another major insurgent group, the Eelam Revolutionary Organization of Students (EROS)—has traditionally relied on bomb attacks. EROS claimed responsibility for an attack last month against a joint Sri Lankan-Japanese cement factory in eastern Sri Lanka and has publicly threatened to attack other assets of multinational corporations operating in Sri Lanka. Increased operations by EROS suggest it is eager to prove its capabilities amid growing signs of LTTE dominance of the Tamil insurgent movement. EROS may also calculate that attacks against economic targets could give members of Sri Lanka's

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### Geography of Colombo

*Colombo, the capital of and largest city in Sri Lanka, is the center of Sri Lanka's tourist and manufacturing industries and the hub for international and domestic transportation. The city grew around Colombo Harbor, Sri Lanka's principal port, and is a major refueling and supply point for merchant ships transiting the Indian Ocean from Europe and the Middle East to East Asia.*

*The municipality of Colombo had a population of 585,776—about 4 percent of Sri Lanka's population—according to the 1981 census. Ethnically, 50 percent of Colombo's population is Sinhalese, 22 percent Sri Lankan Tamil, and 2 percent Indian Tamil.*

*The main business section of Colombo, known as the Fort area—it was a Portuguese fort in the 16th century—is the focal point of many of Sri Lanka's commercial, banking, and government functions. The main residential areas are south and southeast of the business area. The Pettah—the most heavily damaged section of Colombo during the 1983 riots—is Colombo's traditional bazaar area and is in the oldest section of the city.*

increasingly vocal labor unions a pretext for not coming to work—creating additional economic costs to the government. The group rarely attacks government troops or military installations.

We believe that the emergence of the LTTE/EROS strategy is significant for several reasons. First, it signals the decision of the groups to use their demolitions capability, which is already well established against government forces in the north, against human and economic targets in Sinhalese-dominated areas. Second, it indicates that some Tamil insurgent groups can operate in the less hospitable environment of Sinhalese-dominated areas. Third, it highlights the inability of the government to thwart the insurgents, heightened security measures and public awareness notwithstanding.

### Potential Future Targets

Given the success of the recent attacks, Tamil insurgents will probably continue to pursue this new strategy, attempting further bomb attacks in Colombo and other heavily Sinhalese areas. They probably have the means and sufficient explosives to carry out such attacks. Sri Lankan police investigators, for example, uncovered plans for widespread Tamil sabotage and have revealed that 1,000 sticks of gelignite explosive were recently smuggled into Colombo.

The capital will be particularly susceptible to Tamil insurgent attacks because it offers targets with the greatest potential impact on the largest number of people and on the economic well-being of Sri Lanka. We believe key transportation and economic facilities are particularly vulnerable:

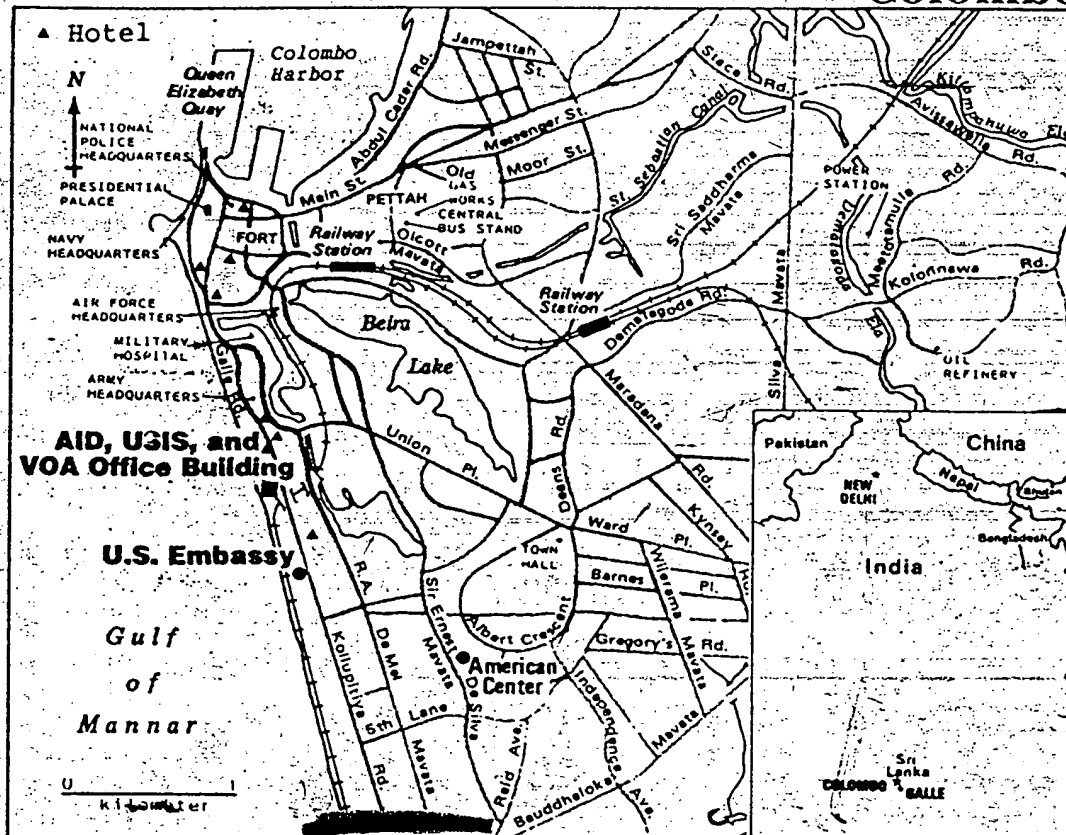
- **Transportation.** Trains and stations along major rail lines—particularly the Colombo Fort Railway Station, which is the busiest rail center; buses transiting Colombo's congested streets; highway and railway bridges over rivers and canals; facilities and aircraft at Katunayaka International Airport, 35 kilometers north of Colombo; and Colombo Harbor port facilities.
- **Economic.** Major tourist hotels—located in the Fort and along the coast to the south (including hotels of the US Holiday Inn and Ramada chains); the Pettah market district; and the Free Trade Zone, where more than 90 percent of the multinational corporations in Sri Lanka have facilities, located near the airport.

Transportation and hotel facilities, in our view, are especially vulnerable.

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## Colombo



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Government, utility, and communications facilities, which are generally less accessible to the insurgents, may also become vulnerable, including:

- **Local and national government facilities.** The presidential palace (Janadhipathi Medura); National Police Headquarters; the Colombo Town Hall; and four military facilities—Army, Navy, and Air Force Headquarters and the Military Hospital.

- **Utilities.** The oil refinery, the power station, and the gasworks.
- **Communications.** Broadcast towers and radio and television stations.

Although the capital will probably be the focus of Tamil insurgent activity outside of traditional Tamil areas, two other urban areas in the south may be vulnerable to attacks:

- Galle, located on the southern coast, is the second-largest port in Sri Lanka and is 76 percent Sinhalese.

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- Kotte, located 11 kilometers from the Colombo Fort, because Sri Lanka's new parliamentary complex—currently under construction—will be located there. Kotte is 89 percent Sinhalese.

#### Problems for New Delhi

Press reports of high civilian casualties, including foreign tourists, are likely to bring increased international scrutiny of New Delhi's links to the insurgents. Indian journalists have already published exposes of insurgent base camps in the Indian state of Tamil Nadu, and Western press coverage of the conflict is increasing. Unless New Delhi blocks insurgent arms smuggling from south India to Sri Lanka—a move not likely until Colombo and Tamil moderates are closer to a settlement—Colombo's accusations of Indian support for terrorism are likely to become increasingly embarrassing to New Delhi.

#### Outlook

The increase in terrorist attacks and the failure last month of a major government offensive against insurgent strongholds in the north have made Jayewardene and his military vulnerable to criticism from the Sinhalese community.

Unless Jayewardene can slow the insurgents' successes, his electoral base will weaken, making him more reluctant to reach a negotiated settlement and fueling possible Sinhalese political opposition to his government.

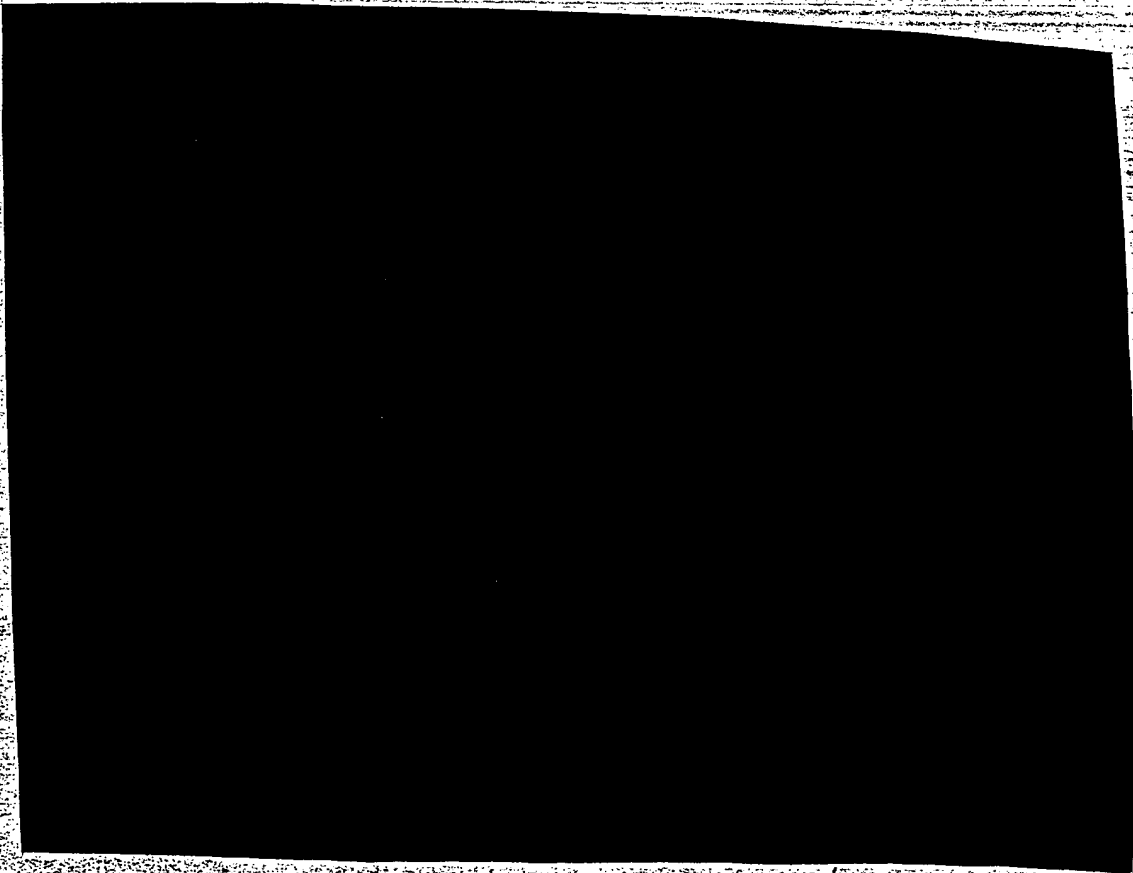
The publicity generated by the attacks is likely to encourage the insurgents to continue their new strategy. Their recent successes will probably lead to increased contributions from Tamil expatriates and may attract additional recruits.

Jayewardene has so far shown no signs of bending to insurgent attempts to extort concessions on autonomy. The attacks are likely to spur the government to launch more military offensives and will probably lead to increased fighting in contested areas during the next several months.

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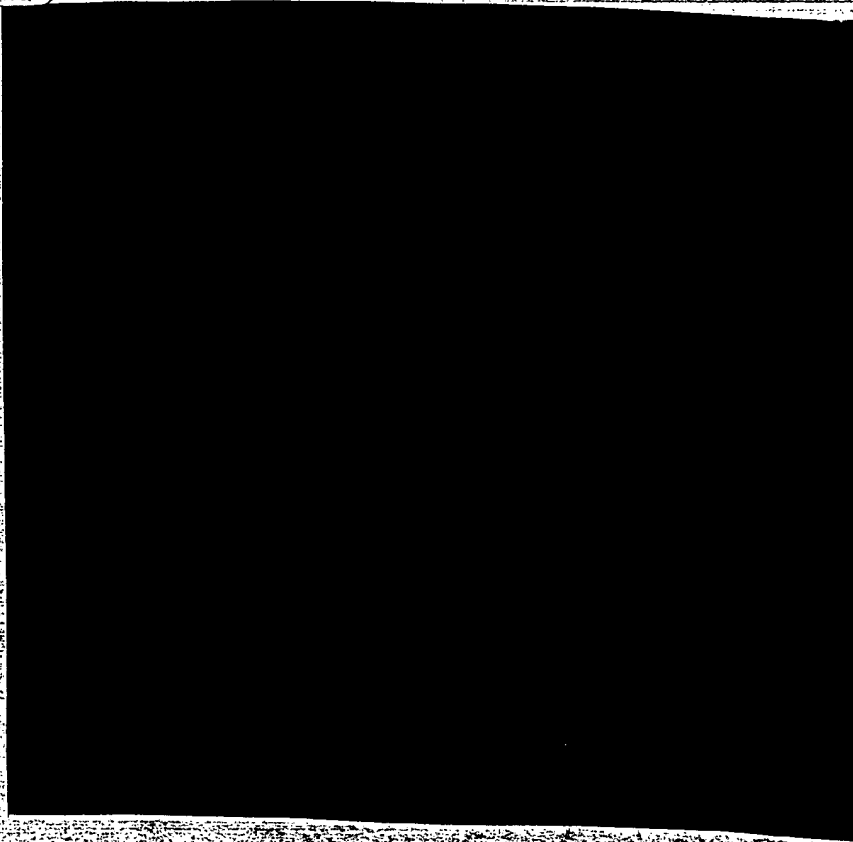
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